Office of the Secretary
Service Date
March 21, 2014

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO ESTABLISH A NEW BASE LEVEL OF NET POWER SUPPLY EXPENSE

CASE NO. IPC-E-13-20

ORDER NO. 33000

On November 1, 2013, Idaho Power Company applied to the Commission for an Order approving the Company's determination of the new "base level" net power supply expense ("NPSE") to be used: (1) to update base rates on June 1, 2014; and (2) as the basis for quantifying 2014/2015 Power Cost Adjustment ("PCA") rates that also would take effect June 1, 2014. The Company says the proposed NPSE increase would be revenue neutral for all customer classes, and would not increase customers' bills. *See* Application at 1-2, 3, and 5.

On November 26, 2013, the Commission issued a Notice of Application and Notice of Modified Procedure that set a February 20, 2014 deadline for interested persons to comment on the Application, and a March 6, 2014 deadline for the Company to file a reply. *See* Order No. 32932. The Industrial Customers of Idaho Power ("ICIP") intervened in the case. Commission Staff, ICIP and Micron Technology, Inc. filed written comments.[1]

Having reviewed the record, including the Application, comments, and reply, we issue this Order approving the Application.

THE APPLICATION

The PCA is a rate mechanism that allows the Company to recover from or return to customers the annual difference between actual NPSE and the normalized, "base level" NPSE and then charges or returns the difference to customers through a rate change each June 1. With this Application, the Company seeks to correct the PCA rate, which is artificially high because the Company's base rates currently recover less NPSE than the normalized, base level NPSE. The base level NPSE consists of Federal Energy Regulatory Commission ("FERC") Accounts: 501, Fuel (Coal); 536, Water for Power; 547, Fuel (gas); 555, Purchased Power; 565, Transmission of Electricity by Others; 442, Hoku Materials, Inc. first block energy revenues; and 447, Sales for Resale. Application at 2.

[1] ICIP and Micron filed joint comments.

The Company says the NPSE has not been analyzed since 2010. At that time, the Commission reviewed and set the Company's base level NPSE at $220,770,137 on a total system basis. Since then, the NPSE has changed twice after the Commission approved settlement stipulations. First, in 2011, the Commission approved a settlement stipulation that set the Company's NPSE at $208,100,936 on a total system basis. The stipulation simply maintained the base level NPSE cost and revenue categories from 2010 while adding expected Hoku revenue and demand response program incentive payments. Second, in 2012, the Commission approved a settlement stipulation that set the current base level NPSE of $199,993,778 on a total system basis. The stipulated NPSE maintained the original 2010 load and fuel cost but recognized that the Company had added the Langley Gulch power plant to its generation resources. *See id.* at 2-3, citing Order Nos. 31042, 32426, and 32585.

With this Application, the Company proposes to increase base level NPSE to $305,684,869. The Company says it needs this increase because the NPSE that is actually recovered in base rates is considerably less than the current, normalized NPSE level. The Company explains that since 2010 the NPSE's components have significantly and permanently changed and increased the base level, normalized NPSE level by about $100 million. The Company currently recovers these ongoing, permanent costs through the PCA, but the PCA is designed to let the Company recover (or return) fluctuating annual power cost differences rather than long-term, permanent costs. The Company thus wants to switch recovery of these significant permanent costs from the PCA to base rates. *Id.* at 3-4, citing Order No. 32821 (expressing concerns with using the PCA to recover long-term, ongoing costs).

The Company says the base level NPSE has increased since 2010 for three main reasons. First, the overall value of the Company's surplus power sales has decreased because lower market prices have limited the Company's ability to economically dispatch its thermal generating units. Second, the Hoku special contract ended in 2012, and the 2013 base level NPSE thus excludes Hoku revenue and load. Third, the Company's PURPA-related expenses have increased by 113% since 2010. *Id.* at 5.

The Company asks the Commission to approve the proposed base-level NPSE increase by March 31, 2014. The Company says on April 15, 2014, it would apply to adjust the 2014/2015 PCA using the updated NPSE, and to offset base rates by the same amount, effective June 1, 2014. The Company explains that its proposal is "revenue neutral" because the base rate increase would generate the same revenue that the Company otherwise would have recovered through the PCA. *Id.* at 6.

Using the PCA's 95.53% energy-based allocation, the Company says Idaho's share of the $105.7 million difference in system-level base NPSE would be about $101 million. Because the Company intends its proposal to be revenue neutral, it would need to adjust the $101 million difference to reflect the 95/5 customer-to-Company PCA sharing. The total allowed PCA recovery would be $99.3 million. The proposal thus would result in a $99.3 million base rate increase, which includes a $1.7 million reduction to the $101 million difference in Idaho jurisdictional base level NPSE. The Company says base rates would continue to reflect the "PCA sharing adjustment" until the Company files its next general rate case or the adjustment is otherwise changed by the Commission. *Id.* at 7.

The Company proposes to use the PCA energy allocation method to apportion the $99.3 million base rate increase among customer classes. In other words, the Company would allocate the base rate increase to each customer class in proportion to the class's annual energy consumption. Each class would thus contribute the same revenue to offset the NPSE through base rates that it would have contributed through the PCA. Base rate revenues would increase by $99.3 million, while PCA revenues would decrease by $99.3 million. *Id.* at 7-8.

The Company also proposes to increase the load change adjustment rate ("LCAR") portion of the PCA from $17.64 per megawatt-hour ("MWh") to $23.34 per MWh to reflect the change in base level NPSE collected through base rates. The LCAR change would take effect June 1, 2014. *Id.* at 8.

In the Application, the Company also recounts that the Commission previously ordered it to include transmission wheeling revenues and expenses in future PCA calculations. *Id.* at 8, citing Order no. 32821. The Company reiterates its view that the PCA should not include wheeling revenues, and says it would be improper to set a base level for the PCA's wheeling revenue component in this case. *Id.* at 8-10.

THE COMMENTS

Commission Staff, ICIP and Micron filed written comments, and the Company filed a written reply. Staff supports the Company's Application. ICIP and Micron do not challenge the Company's proposal to update base rates by shifting the requested amounts from the PCA to base rates, but they disagree with the Company's proposal to apportion amounts among classes on a cents-per-kWh basis. ICIP and Micron argue instead that amounts should be apportioned using the Company's most recent (2011) cost-of-service study. The Company and Staff disagree with the ICIP/Micron allocation approach.

The comments and reply are further summarized below.

A. Commission Staff

Staff analyzed the Company's Application, AURORA modeling, and proposed $305,684,869 total system normalized/base level NPSE consisting of amounts from Account 501, Fuel Expense (coal); Account 536, Water for Power; Account 547, Fuel Expense (gas); Account 555, Purchased Power (non-PURPA); Account 565, Third-party Transmission Expense; Account 442, Hoku First Block Revenue; Account 447, Surplus Sales Revenue; Account 555, Purchased Power (PURPA); and Account 555 Purchased Power (demand response incentives). *See* Staff Comments at 3-10. Based on its review, Staff supports the Company's Application.

1. Base Rate Revenue Allocation and Rate Design. Staff accepts that the total system normalized NPSE is $305,684,869. Staff Comments at 11. On a total system basis, this amount is $105,691,091 more than the amount last accepted for ratemaking purposes in Idaho. Based on this amount, Idaho customers will experience a $99,309,369 increase after jurisdictional allocation and PCA sharing. *Id.*

Staff says the example provided as Company Exhibit No. 2 demonstrates that the PCA revenue-allocation method and the allocation method proposed here (moving the increased NPSE into base rates) produce the same result: the increase is allocated to customer classes on an equal cents-per-kWh basis whether it is a base rate amount or a PCA amount. Staff thus agrees with the Company that moving additional normal NPSE into base rates is revenue neutral. *Id.*

Staff disagrees with ICIP and Micron's position that the Commission should use this case to move customer classes toward cost-of-service. *Id.* Staff notes that a full cost-of-service case could not be processed before Idaho Power's PCA filing in mid-April, or even before new rates take effect in June. The only cost-of-service information provided in this case shows how the proposed NPSE difference would flow to the customer classes in a cost-of-service study. It ignores cost-of-service differences that exist due to amounts in all other accounts. Cost-of-service differences that existed in the Company's last general rate case (Case No. IPC-E-11-08) generally indicated high load factor customer groups are paying less than they would at full cost-of-service. This was one of the factors that influenced Staff's decision to settle that case with large amounts of normal PURPA costs not included in base rates. Staff recognized that these costs would be picked up in the PCA and allocated to customers based entirely on energy. This result provided balance by allocating more costs to high load factor customers to offset the fact that no other move was being made toward cost-of-service. Staff does not know what the results of a full cost-of-service study would be today. Staff thus believes any cost-of-service move at this point in time is inappropriate. *Id.*

2. PCA Calculations. Staff agrees with the Company's proposal to update the PCA base to include all normal NPSEs beginning June 2014. Staff notes that the PCA is designed to capture the difference between base and actual NPSE. In this specific case, the Company's PCA sharing amount is excluded from base rates but included in the PCA base, which is necessary to accomplish the revenue neutral rate change the Company is proposing. It prevents the Company from recovering its PCA sharing amount associated with the proposed increase until that amount is allowed by the Commission. *Id.* at 11-12.

Finally, Idaho Power proposes to update the LCAR (i.e., the load change adjustment rate) from 17.64 \$/MWh to 24.34 \$/MWh. The LCAR is composed of a numerator that is measured in dollars and a denominator that is energy. The dollar amount in the numerator has two components: (1) the average NPSE embedded in base rates, and (2) the average energy classified fixed production cost embedded in base rates. When these amounts are divided by average load assumed in the ratemaking process, the resulting rate describes how the two amounts vary when load changes. The higher LCAR proposed in this case removes more costs from PCA deferral when loads grow to prevent over recovery of NPSE and fixed production costs. When loads decline the higher LCAR adds more dollars to the PCA deferral balance to compensate for under-recovered NPSE and some lost fixed production costs. In this filing, the Company proposes to update the LCAR numerator to include the proposed base level of NPSE. Staff supports the update. The PCA mechanism does not work as designed if the proposed change in NPSE is not tracked through to all of the affected PCA elements. *Id.* at 12.

Staff says the Company correctly states that the base rate increase will offset the associated PCA decrease that would take effect June 1, 2014, but that this does not mean that PCA rates will be zero. Staff says a 2013-2014 deferral balance and a forecast of abnormal PCA amounts in the 2014-2015 PCA year will impact PCA amounts that go into rates on June 1,

2014. Staff says the Company's proposal means that PCA rates will be $99.3 million dollars less than they would be without its implementation. *Id.* at 12.

In summary, Staff recommended the Commission accept the Company's Application to: (1) move normal NPSE that is now captured in each year's PCA filing into base rates; (2) allow the full normal NPSE developed by the Company to be included in the PCA base; (3) set the LCAR at $24.34 MWh; and (4) order that the changes take effect on June 1, 2014. *Id.*

B. ICIP and Micron

ICIP and Micron do not challenge the Company's proposal to update base rates by shifting the requested amount from the PCA into base rates. But they ask the Commission to require the Company to apportion rates among customer classes based on the Company's most recent cost-of-service study instead of on a cents-per-kWh basis as proposed by the Company. ICIP/Micron Comments at 2. They point out that changes in base rates typically occur when the Company files for general rate relief with a full cost-of-service study that is used to set base rates and update the PCA base. A full cost-of-service study allocates costs among customer classes on a demand and energy basis, and impacts all rate classes accordingly. ICIP and Micron say that despite the Company's proposal to change base rates outside of a general rate case, because the base power supply rates are changing, the cost-of-service approach used in rate cases should be used here. *Id.* at 3.

ICIP and Micron say that because "the base rate used in establishing the NPSE has not been updated since 2010,"[2] significant and permanent changes in costs the Company has incurred—such as those associated with Langley Gulch—have been assessed against the Company's customers on a kWh basis. ICIP/Micron Comments at 3-4. ICIP and Micron argue that "[i]f there had been a general rate case (with a cost-of-service study) after those costs were incurred, then they would have all been allocated on either/or both an energy allocator and a capacity (demand) allocator rather than just on an all energy allocator." *Id.* at 4.

ICIP and Micron say they still have concerns that the Company's methodology over-allocates costs to high load factor customers, but they believe that methodology is more reasonable than the Company's proposal here to use an all-energy allocator to apportion both

[2] A base rate is not used to establish the NPSE. The base level NPSE is included in base rates. The base level NPSE has not been updated since 2010. *See* Direct Testimony of Timothy E. Tatum, p. 4 ll. 1-11.

demand and energy-related costs. ICIP and Micron say their proposal to allocate rates based on cost-of-service would still be revenue neutral, and that overall rates would not change. *Id.* at 6.

In reply, the Company says the Commission should reject ICIP/Micron's proposal to apply an allocation method based on allocation factors from the Company's 2011 cost-of-service study. The Company says applying that method would increase rates for residential and irrigation customers while decreasing rates for large power service and special contract customers. Reply at 2. The Company says it did not prepare a current cost-of-service study because it intended any change to base level NPSE to be revenue neutral for all customer classes. The Company's proposal thus maintains the current allocation relationships as established in the Company's last general rate case, Case No. IPC-E-11-08. The Company says it would be inappropriate and beyond this proceeding's scope to modify the allocation of total revenue requirements between customer classes. *Id* at 2-3.

The Company also disputes ICIP/Micron's citation to the base rate adjustment associated with the addition of Langley Gulch (Case No. IPC-E-12-14) as an example of "permanent and significant costs" that were disproportionately assigned to high load factor customer classes on an energy-only basis. *Id.* at 3. The Company notes that the Commission's Order in that case directed the Company to implement an annual revenue increase "spread to each customer class on an equal percentage based upon June 1, 2012 base revenues." *Id. citing* Order No. 32585 at 17. The Company then implemented the Order by applying a uniform percentage increase to the demand and energy rates for each customer class. This maintained the relationships between the demand and energy rate components for each customer class that were established in the last general rate case. Thus, contrary to ICIP/Micron's claim, high load factor customers did not receive a disproportionate share of the rate increase in the Langley Gulch revenue requirement proceeding through the use of an energy allocator. *Id.* at 3-4.

For the above reasons, the Company requests that the Commission approve its Application, and that the Order direct the Company to implement the change in base level NPSE so it has no net impact to the overall revenue collected through customer rates and is "revenue neutral" for all classes of Idaho customers. *Id.* at 4.

FINDINGS AND DISCUSSION

The Commission has jurisdiction over Idaho Power, an electric utility, and the issues in this case under Title 61 of the Idaho Code and the Commission Rules of Procedure, IDAPA

31.01.01.000 *et seq.* The Commission has reviewed the filings in this case, including the Application, comments, and reply. Based on that review, we approve the Company's Application.

We find that the NPSE the Company currently recovers in base rates is less than the normalized NPSE level because significant permanent changes have occurred in the NPSE components since 2010. Those changes have increased the Company's base level normalized NPSE by about $100 million. While the Company currently recovers these ongoing permanent costs through the PCA, we never intended the PCA to allow for the long-term recovery of costs that continue year-to-year. Rather, the PCA was implemented to enable the Company to recover or return the annual fluctuation in power supply costs and thus keep its customers from paying too little or too much of those costs. We find it fair, just, and reasonable for the Company to move recovery of the ongoing permanent costs from the PCA to base rates as discussed in the Application. This change is consistent with the views expressed in Order No. 32821 (discussing the danger of using the PCA as a cost recovery mechanism for more than the current annual power cost fluctuation).

We also find it fair, just, and reasonable for the Company to apportion the base rate increase to each customer class based on the class's annual energy consumption. Allocating the base rate increases using the PCA energy allocation method ensures that each customer class offsets NPSE with the same base rate revenue that it would have contributed through the PCA. As a result, base rates are updated and the PCA is restored to its intended purpose without impacting customer bills.

We disagree with the ICIP/Micron allocation approach, and find it would be inappropriate in 2014 to allocate the base rate increase using the Company's 2011 class cost-of-service study. We note that the ICIP/Micron proposal would disproportionately increase rates for residential and irrigation customers, which is not our intent. The 2011 cost-of-service study indicated that high load factor customer groups were paying less then than they would pay at full cost-of-service. Applying cost-of-service methodology to only the few accounts included in NPSE to the benefit of high load factor customers would exacerbate the underpayment situation identified in the 2011 study.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted. The new base level NPSE of $305,684,869 shall be used to: (1) update base rates effective June 1, 2014, and (2) quantify the 2014/2015 PCA rates to be effective June 1, 2014. The Company shall implement the change to base level NPSE so it has no net impact to the overall revenue collected through customer rates and is "revenue neutral" for all classes of Idaho customers

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 21st day of March 2014.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Mack A. Redford

MACK A. REDFORD, COMMISSIONER

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

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