

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
DON HOWELL**

**FROM: KARL KLEIN
DEPUTY ATTORNEY GENERAL**

DATE: NOVEMBER 20, 2013

**SUBJECT: IDAHO POWER'S APPLICATION TO ESTABLISH A NEW BASE
LEVEL OF NET POWER SUPPLY EXPENSE, CASE NO. IPC-E-13-20**

On November 1, 2013, Idaho Power Company applied to the Commission for an Order authorizing the Company to use increase its total system "base level" net power supply expense ("NPSE") from \$199,993,778 to \$305,684,869.¹ The Company would use the increased NPSE to: (1) 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.

The Company explains that the PCA allows it to recover from, or return to customers the difference a rate mechanism that tracks 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. The Company says it has filed this Application to correct the PCA rate, which the Company says 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. *Id.* at 2.

¹ On November 4, 2013, the Company filed an Errata to Application that changed the proposed NPSE from \$404,684,869 to \$305,684,869. This Memorandum refers collectively to the Application and errata as the "Application."

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.

The Company proposes to increase base level NPSE to \$305,684,869. The Company says it needs this increase because the NPSE recovery level in base rates is considerably below the current, normalized NPSE level. The Company explains that the NPSE's components have significantly and permanently changed and increased the base level, normalized NPSE level by about \$100 million since 2010. 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 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 will 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 the "PCA sharing adjustment" would continue to be reflected in base rates until the Company files its next general rate case or it otherwise is adjusted by the Commission. *Id.* at 7.

The Company proposes allocating the \$99.3 million base rate increase using the PCA energy allocation method; that is, it 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 as 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") 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.

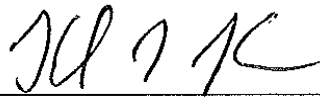
Lastly, the Company's Application recounts that the Commission previously ordered the Company to include transmission wheeling revenues and expenses in future PCA calculations. *Id.* at 8, citing Order No. 32821. The Company reiterates its view that the PCA should not include wheeling revenues, and the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

STAFF RECOMMENDATION

Staff recommends that the Commission issue a Notice of Application and Notice of Modified Procedure setting a February 20, 2014 comment deadline and a March 6, 2014 reply deadline. Staff believes the wheeling revenue issue is beyond the scope of this proceeding, and recommends that the Commission limit the scope of comments accordingly. The Company concurs with the above approach.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application and Notice of Modified Procedure setting a February 20, 2014 comment deadline and March 6, 2014 reply deadline, and limiting the scope of comments as noted above?



Karl Klein
Deputy Attorney General

M:IPC-E-13-20_kk