Idaho Public Utilities Commission

Case No. IPC-E-13-20, Order No. 32932

February 3, 2014

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Idaho Power wants to transfer some power supply expense into permanent base rates

Idaho Power is asking state regulators to authorize the transfer of about $100 million in power supply expense into permanent base rates. The application will have no impact on rates customers currently pay, but could help reduce the volatility in the annual Power Cost Adjustment (PCA) every June 1, which last year was an average 15.3 percent increase, one of the highest on record.

The rates customers pay are divided into several components, the major ones being the base rate and the Power Cost Adjustment (PCA). The base rate includes primarily fixed costs and isn't changed until the company files a rate case. The PCA[1] changes every June 1 to account for that portion of variable expense the utility incurs to provide power to customers due to changing conditions largely outside the company's control such as water levels, fuel expense, wholesale market prices and transmission expense.

Idaho Power now includes about $200 million of its anticipated power supply expense in base rates. If actual power supply expense comes in under that $200 million, customers are credited the difference on June 1 through the PCA mechanism. If power supply expenses are greater than $200 million, customers receive a surcharge. The credit or surcharge expires every May 31 and is renewed on June 1 with a different amount reflecting the previous year's water, gas and market conditions and a forecast of the next year's conditions.

The $200 million included as in base rates as "normalized power supply expense" has not been adjusted since 2010. Idaho Power is asking the Idaho Public Utilities Commission to increase the amount of normalized power supply expense into base rates by $105 million. While the application would increase base rates by $105 million, it would, at the same time, reduce the amount in the PCA by the same amount, resulting in no increase for customers. However, customers should be aware that other conditions, such as another low water year, could result in another PCA surcharge this June 1.

During the last PCA year (April 1, 2012 to March 31, 2013), power supply expense was $140 million higher than the $200 million built into base rates, resulting in an average 15.3 percent increase to customers, the fourth-highest on record. Much of that was attributable to 19 percent less water, forcing the hydro-dependent utility to look for other sources of energy supply.

Another significant contributing factor was the $62.6 million the company paid for power sales agreements with renewable energy projects that qualify under the provisions of the Public Utility

[1] The Power Cost Adjustment is listed as the "Annual Adjustment Mechanism," on customer bills because it also includes the annual Fixed Cost Adjustment.

Regulatory Policies Act (PURPA). The federal act requires utilities to buy energy from qualifying renewable energy projects. Idaho Power proposes to move that ongoing PURPA expense into base rates.

About $61.4 million of last year's $140 million PCA was the result of reduced revenue from off-system energy sales. Cheaper energy prices on the open market due to lower natural gas prices resulted in $61.4 million less revenue than forecasted. Ninety-five percent of the revenue from energy sales is allocated to customers through the PCA mechanism. In this application, Idaho Power proposes to adjust the anticipated revenue from off-system sales to account for lower market energy prices.

In its order last May 31 approving the 15.3 percent increase in the PCA, the commission warned against including ongoing power supply expense in the PCA rather than current, variable fluctuations. ""The PCA was never intended for ***long-term*** recovery of costs that continue from year to year. It was implemented to properly recover the company's ***annual fluctuation*** in power costs and keep the customers from paying either too little or too much of those costs," (emphasis added) the commission said.

Timothy Tatum of Idaho Power's regulatory affairs department said the availability of hydroelectric generation should be the factor that causes the most impact on whether customers get a PCA credit or surcharge. "When the company's base-level net power supply expense is reflective of current normalized net power supply expense, one would expect that a better-than-average water year would result in a negative PCA or a credit, and a worse-than-average water year would result in a positive PCA or a surcharge," Tatum said in testimony filed with the commission. But because customers are currently paying for $100 million in ongoing and permanent power supply expense in the PCA, even a good water year will likely result in a surcharge, which is a source of confusion for customers, he said.

The company is asking that the commission grant its application by March 31 so it can make the adjustment in this PCA year. The commission is taking customer comment through Feb. 21, after which Idaho Power will file reply comments by March 6.

Comments are accepted via e-mail by accessing the commission's homepage at www.puc.idaho.gov and clicking on "Case Comment Form," under the "Electric" heading. Fill in the case number (IPC-E-13-20) and enter your comments. Comments can also be mailed to P.O. Box 83720, Boise, ID 83720-0074 or faxed to (208) 334-3762.

A full text of the company's application and supporting testimony is also available on the commission's Web site. Click on "Open Cases" under the "Electric" heading and scroll down to the above case number.

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