Idaho Public Utilities Commission
Case No. IPC-E-13-20, Order No. 33000
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Commission OKs updated power supply expense for Idaho Power

BOISE (March 28) – State regulators have approved an Idaho Power Company request to shift $105.7 million in ongoing power supply expense into permanent base rates. The transfer will not impact customer rates, but could reduce the volatility in the annual Power Cost Adjustment (PCA) every June 1, which last year was a 15.3 percent increase, one of the highest on record.

Customer rates are divided into several components, the major ones being the permanent base rate and the variable Power Cost Adjustment (PCA). The base rate includes primarily fixed costs and some power supply expense and isn't changed until Idaho Power files a rate case. The PCA[1] includes power supply expense that changes from year to year, largely due to factors outside the company's control. These variable expenses are impacted by 1) the amount of snowpack that provides water for Idaho Power's hydroelectric plants, 2) the cost of buying power from the wholesale market, 3) fuel expense and 4) transmission expense. The PCA is adjusted up or down every June 1 to account for these variable expenses.

Up until this application, Idaho Power included about $200 million of "normalized power supply expense" in base rates. In this order, the Idaho Public Utilities Commission approved adding $105.7 million of power supply expense into base rates, bringing the total to $305.7 million of normalized power supply expense. If actual power supply expense comes in under $305.7 million when the company files its annual Power Cost Adjustment in mid-April, customers will be credited the difference on June 1 through the PCA mechanism. If power supply expenses are greater than $305.7 million, customers receive a surcharge. The monthly 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.

While the amount included in base rates is increased by $105 million, the PCA account is reduced 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.

Normalized power supply expense has not been updated since 2010. During the last PCA year (April 1, 2012 to March 31, 2013), power supply expense was $140 million higher than the $200 million normalized power supply expense, resulting in an average 15.3 percent increase to

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

customers, the fourth-highest PCA on record. Much of that was attributable to 19 percent less water, forcing the hydro-dependent utility to look to other sources of energy supply.

Another significant contributing factor to last year's PCA was the $62.6 million the company paid in power sales agreements with wind projects under the provisions of the Public Utility Regulatory Policies Act. PURPA requires utilities to buy energy from qualifying renewable energy projects. In this application, the commission approved moving ongoing PURPA wind expense into base rates. Another $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 less revenue from off-system sales, 95 percent of which is shared with customers.

The commission said it is appropriate that ongoing power supply expense be moved to base rates. "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," the commission said. "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."

The Industrial Customers of Idaho Power (ICIP) and Micron Technology, Inc. did not oppose updating power supply expense in base rates but disagreed with Idaho Power's proposal to apportion those rates to all customers based on energy consumption by customer class.

ICIP and Micron said the increased base rate allocation should be based on a cost-of-service study that determines the cost to serve each customer class such as residential, commercial, irrigation and industrial. The current method of allocating power supply expense over-allocates to high load factor industrial customers, Micron and ICIP contend.

The commission said adopting the ICIP/Micron proposal "would disproportionately increase rates for residential and irrigation customers, which is not our intent."

A full text of the company's application and other documents related to the case is available on the commission's Web site at www.puc.idaho.gov Click on "Open Cases" under the "Electric" heading and scroll down to Case Number IPC-E-13-20.

Interested parties may petition the commission for reconsideration by no later than April 11. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted. Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.

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