Office of the Secretary
Service Date
May 28, 2015

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO IMPLEMENT POWER COST ADJUSTMENT (PCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2015 THROUGH MAY 31, 2016	)	**CASE NO. IPC-E-15-14** **ORDER NO. 33306**

On April 15, 2015, Idaho Power Company applied for its annual Power Cost Adjustment (PCA). Since 1993, the PCA has allowed the Company to increase or decrease its rates to offset the Company's annual "power supply costs." Because about half of the Company's generation is from hydropower facilities, the Company's actual cost to supply electricity to customers varies each year depending on changes in Snake River stream flows, the amount of purchased power, fuel costs, the market price of power, and other factors.[1]

This year, the Company reports that its power supply costs are less than the power supply costs that the Company currently recovers through PCA rates. The Company has thus applied to adjust its PCA rates, and claims its Application, if approved, will *decrease* its customers' bills overall by about $10.1 million (or 0.91%) in the upcoming year, with a typical residential customer's bill decreasing by about 47¢ per month. The Company's proposed PCA rates are reflected in an updated Schedule 55, which the Company has attached to the Application. The Company requests that the new PCA rates take effect on June 1, 2015.

On April 22, 2015, the Commission issued a Notice of Application and Notice of Modified Procedure setting a May 15, 2015 comment deadline and a May 20, 2015 reply deadline. The Industrial Customers of Idaho Power intervened as a party in the case, but filed no comments. Commission Staff submitted the only comments in the case, and supports the Company's Application with some modification to capture the benefits of the Settlement Agreement that Staff and the Company asked the Commission to approve in Case No. IPC-E-15-15 (requesting that the Commission approve a Settlement Stipulation in which the parties propose that the Company change how it calculates its power costs when determining the PCA's true-up component). The Company filed a reply that concurs with Staff's comments.

[1] For example, the revenue from the sale of sulfur dioxide (SO2) allowances.

Having reviewed the record, including the Application, comments, and reply, we enter this Order approving the Company's Application, as modified to reflect the Settlement Agreement approved in IPC-E-15-15, with the new PCA rates to take effect June 1, 2015. Our decision is explained below.

THE PCA MECHANISM

The Company's annual PCA combines three traditional components and two additional components to generate a new PCA rate for the upcoming year. Sections A and B, below, discuss the traditional and additional PCA components.

A. Traditional PCA Components

The PCA's traditional components include: (1) a *forecast* of upcoming power supply expenses; (2) the *true-up* of the prior year's forecasted power supply costs in light of the Company's actual power supply costs for that year; and (3) a *reconciliation* that tracks the Company's recovery of the prior year's true-up. These traditional components are explained below.

1. Forecast. The Company uses its most recent Operating Plan to *forecast* its expected power supply costs for the upcoming PCA year (the 12-month period from April through March). *See* Order No. 30715. Expected power supply costs include: fuel costs; transmission costs for purchased power; Public Utility Regulatory Policies Act of 1978 ("PURPA") contract expenses; surplus sales revenues; and revenues from the sale of renewable energy credits and sulfur dioxide allowances. The Company may recover 95% of the difference between the non-PURPA projected power supply costs and the power supply costs already embedded in rates, 100% of the costs of its PURPA power supply costs, and 100% of its demand-side management ("DSM") incentive and conservation costs. *See* Order No. 30715, Order No. 32426 at 3. The Company converts the power supply cost difference to a cents-per-kilowatt-hour (¢/kWh) rate by dividing the power supply cost difference by the amount of energy it expects to sell in the upcoming year.

2. True-Up. The Company's power supply cost forecast is not 100% accurate, which means that PCA rates based on that forecast allow the Company to recover more or less than the power supply costs that the Company actually incurred during the year. To account for this difference, the Company *trues up* its forecasted power supply costs from the prior year to match its actual power supply costs from that year. The true-up amount is the difference between: (1)

forecasted power supply costs and base power supply costs (i.e., normalized power supply costs that the Company is already authorized to recover through base rates), and (2) revenues from the forecast rate that accrued during the prior year. The Company converts the true-up amount into a ¢/kWh rate by dividing the true-up amount by the amount of energy it expects to sell in the upcoming year.

3. Reconciliation. The Company *reconciles* the true-up by using the new PCA rate to credit or charge customers for any over-recovered or under-recovered balance from the prior year's true-up. Reconciliation ensures that the Company only recovers its actual power supply costs, and that the Company's native load customers only pay for the power that the Company actually sold to them. *See* Order No. 29334 at 4.[2] Customers receive a rate credit when the Company's power supply costs are low, but are assessed additional charges when power supply costs are high.

B. Additional PCA Components

Besides the PCA's traditional components, this year's PCA includes: (1) a *DSM Rider credit;* and (2) *revenue sharing*. These additional PCA components are discussed below.

1. DSM Rider Credit. The Company continues to apply a DSM Rider credit to the PCA. This credit, which is about $4 million, ensures the change to base level Net Power Supply Expenses ("NPSE") that the Commission approved in March 2014 remains revenue neutral. *See* Order No. 33000. The DSM Rider credit is uniformly applied to each customer class and will continue to be included in annual PCAs until NPSE included in base rates is re-established as part of a general rate case.

2. Revenue Sharing. In 2010, Commission Order No. 30978 established a *revenue-sharing* mechanism that can be used to reduce PCA rates. The Commission subsequently modified the revenue-sharing mechanism in Order No. 32424 and extended it through 2014. The revenue-sharing mechanism currently requires that: (1) customers and the Company equally share in actual year-end earnings of 10% through 10.5% ROE in any year from 2012 through 2014, with the customer portion used to reduce rates when the PCA takes effect; and (2) customers receive 75%, and the Company receive 25%, of actual year-end earnings above

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[2] This reconciliation component has been referred to as the "true-up of the true-up."

10.5%, with the customer portion to reduce amounts in the Company's Pension Balancing Account that the Company otherwise would collect from customers through rates.[3]

THE APPLICATION

With this Application, the Company asks the Commission to approve a $63.1 million PCA amount for 2015-2016. This amount includes an $8.0 million revenue sharing rate credit and a $4.0 million DSM Rider credit, and would decrease the Company's total annual billed revenue from customers by about $10.1 million (or 0.91%). If the Application is approved as filed, the Company's major customer classes would be impacted as follows:

Proposed 2015 Revenue Impact by Class:
Percentage Decrease from Current Billed Rates

Residential	Small General Service	Large General Service	Large Power	Irrigation	Overall Change
(0.45%)	(0.07%)	(1.15%)	(1.83%)	(0.91%)	(0.91%)

Source: Application Attach. 2, Revenue Impact Summary; *See also*, News Release filed with Application.

The Company's billed revenue from its three special contract customers would decrease as follows: Micron—(2.22%); Simplot—(2.45%); DOE (INL)—(2.31%).

To recover the new PCA amount, the Company combines the three traditional PCA components (i.e., forecasted power supply costs, true-up, and reconciliation) to propose a 2015/2016 PCA rate surcharge of 0.5405¢/kWh (0.2815¢/kWh + 0.2483¢/kWh + 0.0107¢/kWh). The Company expects this rate will allow it to recover traditional PCA costs in one year. The proposed rate is 0.19¢/kWh less than current PCA rates.

The Company continues to apply the $4 million DSM Rider credit to the PCA. The DSM Rider credit yields a uniform rate credit for all customer classes of (0.0286)¢/kWh.

The Company also applies the revenue sharing component to the PCA. The Company's 2014 year-end ROE for Idaho was 11.19%; thus, the revenue sharing component yields a total customer benefit of $24,692,279, which consists of: (1) a $7,999,145 revenue sharing credit; and (2) a $16,693,134 offset to the Company's pension balancing account. The revenue sharing credit reduces the 2015-2016 PCA calculation by about $7.6 million. The Company proposes to uniformly spread the revenue sharing credit among its rate schedules, and

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[3] In Case No. IPC-E-14-14, the Commission modified the revenue sharing mechanism from Order No. 32424 and extended that mechanism beyond 2014. The modified revenue sharing mechanism will apply in calendar year 2015 and be reflected in the next PCA. *See* Order No. 33149.

to assign the credit to energy rates in each schedule. This class-specific energy credit yields a different combined PCA/DSM Rider/revenue sharing energy rate for each rate schedule.

THE COMMENTS

Staff filed comments in this case that support the Company's Application, with an adjustment that decreases the PCA's true-up deferral balance by $1.471 million. The Company filed reply comments that concur with Staff's recommendations. The comments are summarized below.

A. Staff Comments

In summary, Staff states that it analyzed the traditional PCA components (forecast, true-up, and reconciliation) and additional components (revenue sharing and DSM Rider credit), verified the Company's calculations, and agrees with all of the Company's proposed PCA components except the true-up. Staff's comments on the true-up appear below, followed by Staff's overall recommendation in this case.

1. <u>True-Up</u>. The Company proposes a $34.5 million true-up deferral balance, and a 0.2483¢/kWh true-up rate. Staff explains that the Company's proposed true-up deferral balance consists of the following items:

True-Up Deferral

Description	**Deferral Amount**
Load Change Adjustment	$11,817,280
Water Leases	(770,091)
Fuel Expense - Coal	23,337,488
Fuel Expense - Gas	1,968,648
Surplus Sales	2,115,917
Non-Firm Purchases	21,106,744
Third Party Transmission Expense	234,406
Hoku First Block Revenue	3,216,534
Subtotal	63,026,925
Emission Allowance Sales Credits	(16,250)
Renewable Energy Credit (REC) Sales	(2,400,487)
Subtotal	60,610,189
Amount After Jurisdictional Allocation and Sharing	54,700,695

Qualifying Facilities - After Jurisdictional Allocation	22,154,787
Demand Response Incentive Payments	(3,261,639)
Total Expense Items	73,593,843
Revenue from PCA Forecast	39,275,784
Deferral Balance	34,318,059
Interest on the Deferral Balance	197,922
Total Deferral	$34,515,981

Staff agrees that the Company's true-up calculations are correct. But Staff recommended the Commission reduce the true-up deferral balance by $1.471 million to reflect the Staff and Company's Settlement Agreement in Case No. IPC-E-15-15.

In Case No. IPC-E-15-15, the Company asked the Commission to modify the PCA true-up calculation. Staff and the Company, which are the only parties in that case, ultimately entered a Settlement Agreement in which they agree that the Commission should replace the true-up's load change adjustment rate (LCAR) methodology (which tracks the difference between base system load at generation and actual system load at sales) with a sales-based load adjustment methodology (that tracks the difference between Idaho actual sales at meter and Idaho base sales at meter). This solution addresses a "line loss" inaccuracy that Staff identified in last year's PCA.

The Settlement Agreement in IPC-E-15-15 specifies that the new true-up methodology should apply as of January 1, 2015, and be incorporated into the PCA rates established in this case. Staff notes that applying the agreed upon true-up adjustment here would reduce the true-up deferral balance that customers would otherwise pay by $1.471 million. Staff represents that the Company accepts Staff's proposed $1.471 million true-up adjustment in this case. Staff notes that this adjustment results in a new true-up rate of 0.2376¢/kWh.

2. Overall Recommendation. Based on its analysis, Staff recommended the Commission approve the Company's proposed PCA rates as modified to include the sales-based adjustment rate true-up adjustment discussed above. Staff recommended a uniform 0.5287¢/kW PCA rate surcharge to collect an NPSE amount of $73.67 million. This PCA surcharge rate includes the true-up adjustment proposed in Case No. IPC-E-15-15, and is significantly less than the current rate of 0.7304¢/kWh. Staff further recommended the Commission approve the Company's proposed revenue sharing amounts; specifically, PCA revenue sharing of $7,999,145 and a pension balancing account contribution of $16,693,134. Staff also recommended that the

$4 million in DSM Rider funds be credited to customers as a reduction in the 2015-2016 PCA. Staff recommended the Commission approve the Schedule 55 rates reflected in Attachment C to Staff's comments, a copy of which is also attached to this Order as Attachment 1. Staff recommended the new base rates and updated Schedule 55 rates be effective June 1, 2015. Staff notes that its recommendations, if approved, will *decrease* customers' bills overall by about $11.6 million (or 1.05%), instead of by $10.1 million (or 0.91%) as originally proposed in the Application.

B. Company Reply Comments

In reply to Staff's comments, the Company acknowledges Staff's review and confirmation of the Company's PCA calculations. The Company also supports Staff's recommendation to further decrease the filed PCA deferral balance by another $1.471 million to reflect the parties' Settlement Agreement in Case No. IPC-E-15-15. The Company affirms that this adjustment accurately quantifies the January 1, 2015, implementation of the PCA deferral modifications detailed in the Settlement Agreement. The Company believes that Staff appropriately incorporated the Settlement Agreement's terms into the Company's filed 2015-2016 PCA rates, and requests that the Commission approve those rates as specified in Attachment C to Staff's comments, which also is attached to this Order as Attachment 1.

FINDINGS AND DISCUSSION

We have reviewed the record, including the Company's Application and the comments filed in this case. We note that there is no disagreement between the parties in this matter, or any opposition to the PCA rates they have ultimately proposed. Based on our review of the record, we find it fair, just, and reasonable to approve the Company's proposed PCA rates, as modified to include the true-up adjustment discussed above. The resulting uniform PCA surcharge rate of 0.5287¢/kW is much less than the current rate of 0.7304¢/kWh and will enable the Company to collect an NPSE amount of $73.67 million. We find that the Company's proposed PCA revenue sharing of $7,999,145, pension balancing account contribution of $16,693,134, and $4 million DSM Rider credit, are accurately calculated and will further reduce the 2015-2016 PCA. We find it is fair, just, and reasonable to approve Schedule 55 rates as reflected in Attachment 1 to this Order, with the new rates to take effect June 1, 2015.

O R D E R

IT IS HEREBY ORDERED that Idaho Power's proposed PCA rates, as modified to include the sales-based adjustment to the true-up, as approved in Case No. IPC-E-15-15, are approved effective June 1, 2015 through May 31, 2016.

IT IS FURTHER ORDERED that the Company's proposed PCA revenue sharing credit of $7,999,145, pension balancing account contribution of $16,693,134, and $4 million DSM Rider credit are approved.

IT IS FURTHER ORDERED that the PCA revenue decrease shall be combined and offset with the revenue sharing credit and DSM Rider credit to produce new Schedule 55 rates, as shown in Attachment 1 to this Order, with the new rates to be effective June 1, 2015. The Company shall promptly file conforming tariffs.

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 28th day of May 2015.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

KRISTINE RAPER, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:IPC-E-15-14_kk2

Staff Recommendation
Schedule 55 Rates
Case No IPC-E-15-14

Line No	Tariff Description	Rate Sch. No.	(A) Average Number of Customers	(B) Normalized Energy (kWh)	(C) Current Base Revenue	(D) Traditional PCA per kWh Rate	(E) Revenue Sharing $ per kWh	(F) DSM Rider $ per kWh	(G) Schedule 55 Rate $ per kWh
	Uniform Tariff Rates:								
1	Residential Service	1	419,714	4,975,976,021	$451,890,740	$0.005298	($0.000713)	($0.000286)	$0.004300
2	Master Metered Mobile Home Park	3	22	5,051,507	$437,265	$0.005298	($0.000679)	($0.000286)	$0.004333
3	Residential Service Energy Watch	4	0	0	$0	$0.005298	$0.000000	($0.000286)	$0.005012
4	Residential Service Time-of-Day	5	1,403	25,733,211	$2,241,125	$0.005298	($0.000684)	($0.000286)	$0.004329
5	Small General Service	7	27,849	139,242,087	$15,907,921	$0.005298	($0.000897)	($0.000286)	$0.004116
6	Large General Service - Secondary	9S	33,699	3,281,782,926	$223,120,061	$0.005298	($0.000534)	($0.000286)	$0.004479
7	Large General Service - Primary	9P	202	475,252,577	$28,047,944	$0.005298	($0.000463)	($0.000286)	$0.004549
8	Large General Service - Transmission	9T	3	3,688,446	$227,211	$0.005298	($0.000484)	($0.000286)	$0.004529
9	Dusk to Dawn Lighting	15	0	6,364,061	$1,264,908	$0.005298	($0.001560)	($0.000286)	$0.003452
10	Large Power Service - Secondary	19S	1	6,278,646	$370,254	$0.005298	($0.000463)	($0.000286)	$0.004550
11	Large Power Service - Primary	19P	103	2,194,372,131	$114,628,493	$0.005298	($0.000410)	($0.000286)	$0.004602
12	Large Power Service - Transmission	19T	2	32,291,814	$1,619,800	$0.005298	($0.000394)	($0.000286)	$0.004619
13	Agricultural Irrigation Service	24	17,641	1,815,896,060	$133,669,616	$0.005298	($0.000578)	($0.000286)	$0.004435
14	Unmetered General Service	40	1,317	11,638,626	$947,979	$0.005298	($0.000639)	($0.000286)	$0.004373
15	Street Lighting	41	1,516	27,445,918	$3,575,124	$0.005298	($0.001022)	($0.000286)	$0.003990
16	Traffic Control Lighting	42	498	2,834,897	$163,375	$0.005298	($0.000452)	($0.000286)	$0.004560
17	Total Uniform Tariffs		503,970	13,003,848,928	$978,111,817				
18	Special Contracts								
19	Micron	26	1	474,108,872	$22,365,544	$0.005298	NA	($0.000286)	$0.005012
20	J R Simplot	29	1	198,846,061	$8,647,177	$0.005298	NA	($0.000286)	$0.005012
21	DOE	30	1	224,619,666	$9,981,048	$0.005298	NA	($0.000286)	$0.005012
22	Total Special Contracts		3	897,574,599	$40,993,769				
23	Total Idaho Retail Sales		503,973	13,901,423,527	$1,019,105,586				