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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S APPLICATION FOR) **CASE NO. IPC-E-15-15**
APPROVAL OF COMPUTATIONAL)
MODIFICATIONS TO THE TRUE-UP) **COMMENTS OF THE**
PORTION OF THE POWER COST) **COMMISSION STAFF**
ADJUSTMENT)
_____)

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's Application for approval of computational modifications to the true-up portion of the power cost adjustment.

BACKGROUND

On April 28, 2015, the Company applied to the Commission for an Order approving a Settlement Agreement between the Company and Commission Staff. The Settlement Agreement proposes to modify how the Company calculates the "true-up" component of the Company's annual Power Cost Adjustment (PCA). The PCA has been in place since 1993 and allows the Company to adjust its rates up or down to reflect its annual "power supply costs." The Company calculates its PCA, in part, by trueing-up the prior year's projected power costs based on the Company's actual power costs during that year.

In this case, the Company seeks to modify the true-up calculation by: (1) converting the PCA's existing Load Change Adjustment ("LCA") deferral calculation to a Sales Based

Adjustment (“SBA”), effective January 1, 2015; and (2) modifying the PCA deferral balance’s monthly interest calculation to more accurately reflect the Company’s actual interest expense from the monthly accrued deferral. The Company claims the Settlement Agreement, if approved, will improve the PCA’s accuracy and *decrease*, by \$1,470,797, the PCA amounts that would otherwise be collected from customers in the ongoing 2015-2016 PCA case, Case No. IPC-E-15-14. Because the new PCA rates are to take effect on June 1, 2015, and the Settlement Agreement would benefit customers if applied to those rates, the Company asks the Commission to process this case by Modified Procedure in time to issue an Order by June 1, 2015.

By way of background, on May 30, 2014, the Commission issued Order No. 33049 in the Company’s 2014 PCA case, IPC-E-14-05. In that Order, the Commission acknowledged Staff’s concern that the Company may have applied the true-up in a way that inflated the true-up revenue to be collected. The Commission found, however, that the “abbreviated time allotted for the consideration of a PCA case constrains the parties’ ability to more thoroughly vet this issue.” The Commission thus directed: “that a separate docket be opened to allow Commission Staff, the Company, and other interested persons to hold a workshop to further evaluate the Company’s application of the [PCA] true-up [component] and whether a deferral balance adjustment is appropriate.” Order No. 33049 at 13.

On July 1, 2014, the Commission opened Case No. IPC-E-14-16 (PCA Inquiry Case) and scheduled a workshop for the Company, Staff, and interested persons to further explore Staff’s concerns. *See* Order No. 33067. Workshop participants included Staff, the Company, the Industrial Customers of Idaho Power, the Idaho Conservation League, and the Snake River Alliance. Following the workshop, Staff reported to the Commission that the Company had alleviated Staff’s concern about how the Company had applied the true-up component in the last PCA case, and that Staff was withdrawing its previously recommended adjustment to the PCA deferral balance. Staff also recommended the Commission close the PCA Inquiry Case, and noted that Staff would continue to informally meet with the Company and other interested persons to discuss refining the PCA mechanism to make it more accurate and easy to understand. *See* Order No. 33067. The Commission then closed the PCA Inquiry Case, and stated:

We appreciate the parties' willingness to continue to meet outside this case to discuss possible ways to make the PCA mechanism more accurate and understandable. Our goal in implementing the PCA was to ensure the amount recovered is no more or less than the actual power costs paid by the Company." *See* Order No. 30828, Case No. IPC-E-09-11. If the parties' informal discussions lead them to believe the PCA's accuracy can be improved, Staff should advise us of that fact.

After the PCA Inquiry Case closed, the Company and Staff informally explored possible ways to improve the PCA's accuracy. As a result of these discussions, the Company and Staff agreed to a number of changes to the calculation of the PCA true-up balance that they believe will improve the existing methodology. The Company and Staff memorialized their agreement in the Settlement Agreement the Company now asks the Commission to approve.

As noted above, the Settlement Agreement proposes to: (1) convert the PCA's existing LCA deferral calculation to an SBA effective January 1, 2015; and (2) modify the PCA deferral balance's monthly interest calculation to more accurately reflect the Company's actual interest expense from the monthly accrued deferral.

In its Application, the Company explains that it and Staff believe the proposed changes will better align the PCA deferral balance calculation with the Commission's intent that the PCA "ensure the amount recovered is no more or less than the actual power costs paid by the Company." Application at 1, *quoting* Order No. 33089. The Company notes that if the Commission approves the Settlement Agreement effective January 1, 2015, the changes will: (1) decrease the April 2014 through March 2015 PCA deferral amount from \$34,515,981 to \$33,045,184; and (2) decrease the deferral amount to be collected from customers in the ongoing 2015-2016 PCA case, Case No. IPC-E-15-14, by \$1,470,797. The Company states:

Idaho Power and the Staff agree that it is appropriate to adjust this year's requested PCA deferral amount to align with the terms of the Settlement Agreement and will recommend in comments to be filed in Case No. IPC-E-15-14 that the Commission approve such an adjustment. Acceptance of the proposed 2015-2016 PCA deferral adjustment will result in a greater PCA decrease for customers effective June 1, 2015, adjusting the total PCA revenue decrease from \$10.1 million to approximately \$11.6 million. For the changes agreed to above to be included in the Commission's order associated with the Company's annual 2015-2016 PCA filing, the Parties request that the Commission approve the Settlement Agreement no later than June 1, 2015.

See Application at 7.

STAFF ANALYSIS

Staff supports the proposed Settlement Agreement and its two main provisions: 1) converting the LCA mechanism to an SBA mechanism and 2) modifying the PCA deferral balance's monthly interest calculation to more accurately reflect the Company's actual interest expense from the monthly accrued deferral. Staff maintains that the PCA modifications proposed in the Settlement Agreement improve the PCA's accuracy, are fair and reasonable, and should be approved by the Commission. The proposed PCA modifications are discussed below.

1. Converting Load Change Adjustment to Sales Based Adjustment.

The Settlement Agreement provision modifying the PCA LCA methodology was previously presented to the Commission by Staff in last year's PCA, Case No. IPC-E-14-05. Staff maintained in that case that the PCA's purpose was to "ensure the amount recovered is no more or less than actual power cost paid by the Company."

Staff was concerned that the LCA portion of the PCA's true-up calculation inaccurately quantifies actual energy sales because the LCA currently uses load-at-generation rather than Idaho jurisdictional sales. The LCA introduces a line-loss bias because it is based on the difference between actual load-at-generation and load-at-generation used to establish base rates. However, actual line loss is the difference between load-at-generation and load-at-sales, and actual line losses are significantly different than those assumed in the last rate case. In fact, actual line losses typically are much less than assumed line losses, which results in underestimated actual sales used to determine Net Power Supply Expenses (NPSE) actually recovered.

Through workshops and informal discussions, the parties were able to agree on an approach that reasonably addresses Staff's line loss concern and improves the PCA's accuracy. The parties have agreed to replace the LCA with an SBA that compares test-year sales established in a rate case to actual Idaho jurisdictional sales.

The Settlement Agreement implementing the SBA requires four specific adjustments: 1) recalculating the LCA rate with Idaho test-year sales rather than test-year system loads to produce an SBA rate of \$26.72/Mwh (current LCA rate of \$24.34/Mwh); 2) applying the new rate to the difference between Idaho test-year sales and actual Idaho sales; 3) incorporating a one-time adjustment to eliminate double counting during the transition from a calendar month load based adjustment to a billing month sales based adjustment; and 4) applying a monthly

Idaho jurisdictional allocator to assure that actual Idaho jurisdictional NPSE matches actual Idaho jurisdictional sales. Staff participated in methodology development and believes that all of these changes/adjustments are necessary to assure the SBA is accurately implemented.

The parties agreed that the PCA methodology would incorporate the SBA beginning January 1, 2015. Staff had maintained that the SBA should be incorporated for the entire 2014-2015 PCA deferral period to assure that NPSE collected from customers was accurate. The Company maintained that it would need to restate 2014 earnings if the SBA were retroactively applied to the entire PCA period. The Company also pointed out that revenue sharing with customers during 2014 significantly diminished the beneficial customer impact of the SBA. Finally, the Company provided work papers showing how benefits would accrue to customers with SBA implementation in June of 2014 versus SBA implementation on January 1, 2015.

The analysis shows that customer benefits with a January 1, 2015 SBA implementation date total about \$1.47 million, and are about \$100,000 higher with a June 1, 2014 SBA implementation date. Given the potential issues associated with earnings restatement and the relatively small difference in total customer benefits, the parties agreed to the January 1, 2015 SBA implementation date. The Settlement Agreement proposes that the \$1.47 million in benefits be returned to customers in the 2015-2016 PCA, Case No. IPC-E-15-14. Staff comments in that case recommend that the SBA benefits be allocated to each customer class based on forecasted energy consumption. Staff Attachment A to these comments show the SBA adjustment benefit to each rate schedule as included in the PCA.

Staff fully supports replacing the LCA with the SBA in the PCA using the rate formula changes described above. Staff has reviewed the one-time adjustment to assure a smooth transition from monthly calendar load to monthly billed sales and finds it necessary to accurately track NPSE recovery in the 2015-2016 PCA. Staff has also reviewed the monthly Idaho jurisdictional allocation methodology proposed in the Settlement Agreement, and believes it is necessary to match Idaho actual NPSE with actual Idaho loads. While the actual impact on future PCAs will depend upon specific generation and consumption conditions, Staff maintains that using an SBA rather than an LCA will always result in more accurate NPSE recovery.

2. Modifying Monthly Interest Calculation on Deferral Balance.

The parties have agreed to modify how interest accrues on the NPSE deferral balance during the PCA period. The current interest-deferral methodology uses the Company's Aurora

modeling software to spread base NPSE to each month throughout the year. The Settlement proposes to spread the base NPSE using base rate revenue collection each month as established in the last general rate case (IPC-E-11-08).

The parties further agree that the proposed modification to the monthly NPSE shaping will commence on January 1, 2015. The parties also agree that the deferral balance in the Company's 2015 PCA filing should be adjusted to include three months of the modified methodology. Staff comments in that case (IPC-E-15-14) included a true-up rate adjustment for both the SBA and the shaping methodology change. The change in the shaping methodology increases interest expense by about \$24,000 and is incorporated in Attachment A.

Staff supports changing the interest-deferral methodology because it better reflects how monthly NPSE expenses are accrued and how monthly revenues are generated to offset those expenses. On the other hand, using Aurora to model hypothetical monthly NPSE fails to recognize how sales revenues are actually collected during the year. The proposed modification will more accurately reflect the net effect of expenses and sales resulting in a more accurate interest accrual.

STAFF RECOMMENDATION

Staff has reviewed the Settlement Agreement and fully analyzed the effects of the proposed SBA change and the shaping for interest accrual. Staff believes these agreed-upon modifications will improve the PCA's accuracy, and recommends that the Commission approve the Settlement Agreement as filed.

Respectfully submitted this 19th day of May 2015.



Karl T. Klein
Deputy Attorney General

Technical Staff: Randy Lobb

i:umisc/comments/ipce15.15kkrl comments

Idaho Power Company
Calculation of Revenue Impact 2015 - 2016 PCA
Incremental Increase -- SBA/Interest Modification

Summary of Revenue Impact
Current Billed Revenue to Proposed Billed Revenue

Line No	Tariff Description	Rate Sch. No.	Average Number of Customers ⁽¹⁾	Normalized Energy (kWh) ⁽¹⁾	Current Billed Revenue	Mills Per kWh	Total Adjustments to Billed Revenue	Proposed Total Billed Revenue	Mills Per kWh	Percent Change Billed to Revenue
<u>Uniform Tariff Rates:</u>										
1	Residential Service	1	419,714	4,975,976,021	\$490,529,194	98.58	(\$526,468)	\$490,002,726	98.47	(0.11)%
2	Master Metered Mobile Home Park	3	22	5,051,507	\$477,051	94.44	(\$534)	\$476,516	94.33	(0.11)%
3	Residential Service Energy Watch	4	0	0	\$0	0.00	\$0	\$0	0.00	N/A
4	Residential Service Time-of-Day	5	1,403	25,733,211	\$2,443,466	94.95	(\$2,723)	\$2,440,743	94.85	(0.11)%
5	Small General Service	7	27,849	139,242,087	\$17,024,504	122.27	(\$14,732)	\$17,009,772	122.16	(0.09)%
6	Large General Service	9	33,904	3,760,723,949	\$271,810,097	72.28	(\$397,892)	\$271,412,205	72.17	(0.15)%
7	Dusk to Dawn Lighting	15	0	6,364,061	\$1,279,520	201.05	(\$673)	\$1,278,847	200.95	(0.05)%
8	Large Power Service	19	106	2,232,942,591	\$129,505,363	58.00	(\$236,250)	\$129,269,114	57.89	(0.18)%
9	Agricultural Irrigation Service	24	17,641	1,815,896,060	\$143,226,677	78.87	(\$192,125)	\$143,034,552	78.77	(0.13)%
10	Unmetered General Service	40	1,317	11,638,626	\$1,007,150	86.54	(\$1,231)	\$1,005,918	86.43	(0.12)%
11	Street Lighting	41	1,516	27,445,918	\$3,684,716	134.25	(\$2,904)	\$3,681,812	134.15	(0.08)%
12	Traffic Control Lighting	42	498	2,834,897	\$179,387	63.28	(\$300)	\$179,087	63.17	(0.17)%
13	Total Uniform Tariffs		503,970	13,003,848,928	\$1,061,167,124	81.60	(\$1,375,832)	\$1,059,791,291	81.50	(0.13)%
<u>Special Contracts:</u>										
14	Micron	26	1	474,108,872	\$25,174,938	53.10	(\$50,162)	\$25,124,777	52.99	(0.20)%
15	J R Simplot	29	1	198,846,061	\$9,838,510	49.48	(\$21,038)	\$9,817,472	49.37	(0.21)%
16	DOE	30	1	224,619,666	\$11,313,830	50.37	(\$23,765)	\$11,290,064	50.26	(0.21)%
17	Total Special Contracts		3	897,574,599	\$46,327,278	51.61	(\$94,965)	\$46,232,313	51.51	(0.20)%
18	Total Idaho Retail Sales		503,973	13,901,423,527	\$1,107,494,402	79.67	(\$1,470,798)	\$1,106,023,604	79.56	(0.13)%

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF MAY 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-15-15, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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