

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF IDAHO POWER'S</b>	)	
<b>COMPLIANCE FILING REQUEST</b>	)	<b>CASE NO. IPC-E-16-06</b>
<b>FOLLOWING THE COMMISSION'S PRIOR</b>	)	
<b>APPROVAL FOR THE COMPANY TO</b>	)	
<b>EXCHANGE CERTAIN TRANSMISSION</b>	)	<b>ORDER NO. 33561</b>
<b>ASSETS WITH PACIFICORP</b>	)	

---

In December 2014, PacifiCorp dba Rocky Mountain Power and Pacific Power (collectively "PacifiCorp") and Idaho Power Company filed a joint Application asking the Commission to approve the exchange of certain transmission assets. The Commission granted the Utilities' Application in June 2015, in Case Nos. IPC-E-14-41 and PAC-E-14-11, and directed the Utilities to establish regulatory deferral accounts for transmission revenues resulting from the transaction and the resulting changes in the Utilities' OATT rates. Order No. 33313. In February 2016, Idaho Power made a compliance filing asking the Commission to approve its treatment of Idaho Power's deferral account, given the subsequent (and unexpected) denial by the Federal Energy Regulatory Commission (FERC) of the Company's petition for a one-time adjustment to its transmission formula rate. Compliance Filing at 5-7, *citing* "OATT Rate Order," 153 FERC § 61,212 (2015).

The Commission issued a Notice of Application and Notice of Modified Procedure in April 2016. Order No. 33500. The Industrial Customers of Idaho Power filed a Petition to Intervene, which the Commission granted. Order No. 33510. Commission Staff timely filed the only written comments received by the Commission. In light of the complexities in the case, Idaho Power requested additional time to file its reply, to which no parties objected. The Commission extended the reply deadline, and Idaho Power timely filed its reply on July 1, 2016. The Commission now issues its decision as follows.

**BACKGROUND**

Over the past 40 years, Idaho Power and PacifiCorp entered into a number of agreements (generally referred to as "Legacy Agreements") through which they jointly own and operate the Jim Bridger power plant and associated transmission assets. In October 2014, Idaho Power and PacifiCorp entered into a Joint Purchase and Sale Agreement (JPSA) and a Joint Ownership and Operating Agreement (JOOA) to largely replace or amend three prior Legacy

Transmission Agreements. The agreements addressed inefficiencies caused by changes in “the regulatory landscape . . . load growth, and investments in system upgrades” by exchanging assets, and reallocating ownership interests and operational responsibilities. Application at 2-3 in Case No. IPC-E-14-41.

The “changes in the regulatory landscape” included the “advent of [FERC] open-access policies.” Duvall Direct at 4, Case No. PAC-E-14-11. FERC’s open access policies were initiated in 1996, under FERC Order No. 888, which require public utilities to provide open access transmission service on a comparable basis to the transmission service they provide themselves (i.e., non-discriminatory access). 61 Fed.Reg. 21540, 21541. Order No. 888 requires electric utilities providing transmission services to file an Open Access Transmission Tariff (OATT) with “minimum terms and conditions of non-discriminatory service.” *Id.*

In June 2015, the Commission granted Idaho Power and PacifiCorp’s application to approve their exchange of transmission assets. Order No. 33313. As part of the Order, the Commission directed the Utilities to establish regulatory deferral accounts for revenues resulting from the transmission assets exchange and the resulting changes in the Utilities’ OATT rates. The parties in that case anticipated that the transaction would result in an increase in Idaho Power’s OATT rate, upon the Company’s request to FERC for a one-time adjustment to its transmission formula rate calculation. However, FERC denied Idaho Power’s request.

Idaho Power’s transmission formula rate is updated each year and is in effect for the following October 1 through September 30. Compliance Filing at 5. The transmission formula rate calculation uses actual costs from the previous calendar year ending December 31. *Id.* at 5-6. The calculation’s “load divisor” accounts for all long-term firm demands on Idaho Power’s transmission system, which include contract demand. *Id.* Contract demand input for the transmission formula rate calculation uses a rolling 12-month average of the transmission system peak. *Id.*

Idaho Power states that it petitioned FERC to adjust the contract demand input in its transmission formula rate load divisor to reflect actual contract demands on its transmission system, which no longer include the now-terminated Legacy Agreements. *Id.* However, because Idaho Power’s formula rate is backward-looking rather than forward-looking, FERC determined the formula rate did not allow the adjustment, and denied the Company’s petition. *Id.*; see “OATT Rate Order,” 153 FERC § 61,212 (2015).

According to Idaho Power, the effect of FERC's Order "will delay the full realization of increased OATT-related revenues resulting from termination of the Legacy Agreements until October 1, 2017." *Id.* at 7. Consequently, Idaho Power proposes including transmission revenue decreases as well as increases in its regulatory deferral account that the Commission directed the Company to establish in its Order approving the asset exchange.

### **THE COMPLIANCE FILING**

In its Compliance Filing, the Company provided an updated revenue analysis. Idaho Power stated that the net result of FERC's Order denying the Company's requested increase in OATT rate calculation is a \$1.1 million decrease in Idaho Power's transmission revenues in 2015, thus creating a regulatory liability balance. Compliance Filing at 10. Idaho Power anticipates that its total cumulative transmission revenue will decrease over the next three years before turning positive in 2019. *Id.* Idaho Power seeks approval from the Commission confirming that its proposed accounting treatment, in light of FERC's ruling and the impacts therefrom, complies with Order No. 33313. The Company is not requesting any rate increase as a result of this filing.

### **STAFF COMMENTS**

Staff recommended denying Idaho Power's proposed accounting from the 2014 asset exchange matter. Staff believes Idaho Power's proposal does not comply with the Commission's intent in final Order No. 33313.

#### ***A. Deferral Accounting from the Asset Exchange***

Staff noted that the Commission's approval of Idaho Power's asset exchange in Order No. 33313 "only discussed the financial benefits and the treatment of the anticipated financial benefits during future general rate cases and, eventually, a revised Power Cost Adjustment (PCA) methodology." Comments at 2-3. In its application for approval of the asset exchange, Idaho Power did not request, thus Staff did not address, "[s]ymmetrical tracking of transmission revenue increases or decreases." *Id.* Specifically, the Company "made no recommendation in its original application to defer [transmission revenue] losses for recovery from retail customers." *Id.* at 3.

Upon its review of the Company's working papers and supporting spreadsheets, Staff accepted the Company's calculations and believes that the forecasted revenues are reasonable. *Id.* at 4. However, Staff does not support Idaho Power's request to include in the deferral

account, the negative cumulative differences in total transmission revenue, resulting from the asset exchange. Staff noted that, in the asset exchange case, the Company “did not provide estimates of potential financial consequences in the event of a FERC denial.” *Id.* at 5.

If the Commission approves Idaho Power’s request and includes the decrease in transmission revenues in the deferral account, then Staff believes the Company’s accounting information “is a reasonable starting point.” *Id.* In that circumstance, Staff recommended “that the Company be required to recognize, as a credit to the deferral account, the annual amortization amount approved in Case No. IPC-E-12-06, Order No. 32540.” *Id.*

***B. Amortization of Transmission Revenue Losses from Prior FERC Proceeding***

Idaho Power “sought and received deferral and amortization through customer rates of transmission revenue losses.” *Id.* at 3; *see* Order No. 30940 (Case No. IPC-E-09-21, re: deferring transmission service costs), and Order No. 32540 (Case No. IPC-E-12-06, re: amortizing amounts in deferral account). Although the deferral balance was fully recovered in 2015, amortization of that deferral balance is still embedded in retail rates. Comments at 3. In its Order from Case No. IPC-E-12-06, “the Commission allowed the Company to increase rates to amortize transmission costs in the deferral account over a 3-year period . . . [which] ended June 1, 2015.” *Id.*; Order No. 32540. Staff proposes that the amortization amount, already in rates from the 2012 case, should be credited to the deferral account from the asset exchange. *Id.*

***C. Staff Recommendations***

In summary, Staff recommended: (1) that the Commission clarify that the deferral account should only reflect revenue increases caused by a new OATT rate; or (2) if the Commission intended symmetrical tracking of increases and decreases in transmission revenues from the asset exchange, that the unrecovered transmission revenues previously-approved in rates be credited to the deferral account.

**COMPANY’S REPLY**

***A. OATT Rate Adjustment***

According to Idaho Power, it notified the Commission in the 2014 asset exchange case, “of the potential that the Company would initially experience a decrease in transmission revenues” and that the period of decrease would be longer if FERC denied its request to adjust the inputs to its transmission formula rate. Reply at 6. However, Idaho Power maintained that

the near-term loss of the asset exchange would be “more than offset by the gain over the long run.” *Id.* at 7.

### **B. *Emphasis on Long-Term Gains***

Idaho Power emphasized that its pursuit of the asset exchange reflects its “commitment to making business decisions that benefit its customers in the long term.” *Id.* at 7. The Company noted it anticipated that benefits from the exchange would “be reflected in lower retail rates and associated revenues once they are included in [Idaho Power’s] next general retail rate cases.” *Id.* at 7-8.

Idaho Power indicated it “agrees with Staff that losses associated with the transaction should not be borne by retail customers,” and stressed that it never intended for the transaction to result in an increase to customer rates. *Id.* at 8. But according to Idaho Power, Staff’s approach in this matter would “create a financial disincentive for the Company to reduce costs to customers over the long term.” *Id.* at 13.

### **C. *Symmetrical Tracking***

Idaho Power asserted that Staff’s recommendation to track only positive changes in transmission revenues resulting from the change in the OATT rate is unjust. *Id.* at 11. According to the Company, Staff’s proposal to recognize only one, and not all, components of transmission revenues that are affected by the asset exchange is “contrary to traditional ratemaking practice” and “the Commission’s long-standing treatment of costs and benefits.” *Id.* at 11, 13. The Company highlighted that transmission revenues (including long-term point-to-point revenues and network transmission service revenues) increased as a result of the transaction notwithstanding the outcome of its petition to FERC to adjust inputs to its OATT rate calculation. *Id.* at 12.

The Company asked that the Commission “at a minimum,” eliminate the requirement to track and record changes in transmission revenues from the asset exchange, “and instead address the changes at the time the Company files its next general rate case.” *Id.* In such circumstance, Idaho Power would be able to “incorporate the net impact of changes in transmission revenues to retail customers’ revenue requirement amounts.” *Id.*

### **D. *Prior Amortization Expense***

Finally, Idaho Power objected to Staff’s recommendation to offset deferral amounts with the amortization expense approved in Order No. 32540 (Case No. IPC-E-12-06). *Id.* at 13.

The Company agreed with Staff that the amounts included in the 2009 deferral account were associated with a forecasted OATT transmission formula rate that was overstated. *Id.* But the Company believes those amounts “are not components of the Company’s transmission revenues that are changing as a result of the transaction with PacifiCorp.” *Id.* at 14-15. The Company contended that those amortization amounts are unrelated to the asset exchange, thus it is inappropriate to include them in the proposed deferral; they should instead be dealt with in Idaho Power’s next general rate case. *Id.* at 15.

#### **E. Request for Relief**

The Company argued that, for a fair outcome in this matter, the Commission should either: (1) approve its proposal that tracking both the increases and decreases in transmission revenues resulting from the transaction complies with Order No. 33313; or (2) eliminate the requirement from Order No. 33313 to track and record any changes in transmission revenues resulting from the transaction, and instead address all changes to transmission revenues at the time Idaho Power files its next general rate case. Reply at 1-2.

### **DISCUSSION AND FINDINGS**

We have thoroughly reviewed the record in this matter, including the Staff’s and Company’s filings, as well as our Order No. 33313 from the asset exchange case in 2014. In the asset exchange case, we found it “appropriate and direct[ed] Idaho Power to establish a regulatory deferral account for transmission revenues resulting specifically from the transaction and its resulting change in the OATT rates.” Order No. 33313 at 13. As reflected in the record, Idaho Power’s asset exchange with PacifiCorp was and is overseen by both state and federal regulatory authorities. This shared jurisdiction over the Utilities’ interstate transmission assets involves many complex moving parts and timing considerations. In 2015, FERC denied Idaho Power’s request – made as a result of the asset exchange – for a one-time adjustment to input for the Company’s OATT rate calculation.

In light of changed circumstances based on FERC’s ruling, and after consideration of the issues raised by Idaho Power and Staff, we find it appropriate and reasonable to address the change in transmission revenues from the asset exchange in Idaho Power’s next rate case. Transmission OATT rates and Idaho Power transmission revenues will be better known at the time of the next general rate case when the impact of the exchange can be seen. Therefore, no

deferral is required or authorized and potential offsets need not be determined at this time. Idaho Power will bear the risk of its decisions and timing of FERC and state filings.

We affirm the asset transfer agreement between Idaho Power and PacifiCorp. However, we eliminate the requirement from Order No. 33313 that Idaho Power establish a regulatory deferral account. Any changes in transmission revenues resulting from the asset exchange will be addressed, prospectively, in Idaho Power's next general rate case.

### **ORDER**

IT IS HEREBY ORDERED that Idaho Power's request for approval of its accounting treatment from Order No. 33313 is denied.

IT IS FURTHER ORDERED that Order No. 33313 is amended to eliminate the requirement that Idaho Power establish a regulatory deferral account for changes in OATT transmission rates resulting from the asset exchange.

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.

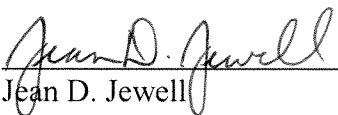
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 3<sup>rd</sup>  
day of August 2016.

  
\_\_\_\_\_  
PAUL KJELLANDER, PRESIDENT

  
\_\_\_\_\_  
KRISTINE RAPER, COMMISSIONER

  
\_\_\_\_\_  
ERIC ANDERSON, COMMISSIONER

ATTEST:

  
\_\_\_\_\_  
Jean D. Jewell  
Commission Secretary

O:IPC-E-16-06\_djh2