

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-16-08
AUTHORITY TO IMPLEMENT POWER)
COST ADJUSTMENT (PCA) RATES FOR)
ELECTRIC SERVICE FROM JUNE 1, 2016) ORDER NO. 33526
THROUGH MAY 31, 2017)**

On April 15, 2016, Idaho Power Company filed its annual Power Cost Adjustment (PCA) Application. Since 1993, the PCA has allowed the Company to increase or decrease its rates to offset the Company's annual "power supply costs." The PCA adjusts rates each year to pass the benefits and costs of supplying energy to Idaho Power customers. Neither Idaho Power nor its shareholders receive any financial return as a result of this filing.

This year, the Company asks the Commission to approve an update to Schedule 55 reflecting a \$17.3 million increase in current PCA rates (for an average increase of approximately 1.57%) and approving the Company's determination of revenue sharing amounts to be shared with customers (\$3.16 million) effective June 1, 2016 through May 31, 2017. The request would increase a typical residential customer's bill by about \$1.32 per month. The Company's proposed PCA rates are reflected in an updated Schedule 55, which the Company attached to its Application. The Company requests that the new PCA rates take effect on June 1, 2016.

On April 29, 2016, the Commission issued a Notice of Application and Notice of Modified Procedure that invited interested persons to file written comments by May 19, 2016. Order No. 33518. Four customers provided written comments, and objected generally to any increase.¹ Commission Staff and an intervenor, the Industrial Customers of Idaho Power (ICIP), also provided comments. The Company filed reply comments concurring with Staff's comments and responding to points raised by ICIP.

Having reviewed the record, including the Application, comments, and reply, we issue this Order approving the Company's Application, with the new PCA rates to take effect June 1, 2016. Our decision is explained below.

¹ None of the commenters specifically addressed the PCA rates, but all expressed concern that power rates generally appear to be outpacing customers' wages and retirement benefits, as well as a perception that the Company is using rate increases to benefit Company executives at the expense of customers.

THE PCA MECHANISM

The PCA mechanism permits Idaho Power to adjust its PCA rates upward or downward to reflect the Company's annual "power supply costs." Due to its diverse generation portfolio, Idaho Power's actual cost of providing electricity (its power supply cost) varies from year-to-year depending on changes in such things as the Snake River streamflow, the amount of purchased power, fuel costs, the market price of power, and other factors. The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate.

The annual PCA mechanism consists of three major components. First, projected power costs for the coming PCA year (June 1, 2016 to May 31, 2017) are calculated using the Company's most recent "Operating Plan." Order No. 30715. The projected power costs include: fuel costs; transmission costs for purchased power; Public Utility Regulatory Policies Act of 1978 (PURPA) contract expenses; surplus sales revenues; Hoku first block take-or-pay revenues; and revenues from the sale of renewable energy credits (RECs) and sulfur dioxide allowances. The Company may recover 95% of the difference between the non-PURPA projected power costs and the approved base power cost, 100% of the costs of its PURPA contracts, and 100% of its demand-side management (DSM) incentive and conservation costs. *See* Order Nos. 30715 and 32426 at 3.

Second, because the PCA includes forecasted costs, the preceding year's forecasted costs are "trued-up" to reflect the actual costs incurred during the prior year.

Finally, the previous year's true-up is adjusted so any over-recovered or under-recovered balance from the second component is credited to, or collected from, this year's PCA rate. This third, "reconciliation" component ensures the Company recovers only the actual costs that the Commission previously authorized it to recover. As a result, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements – no more, no less. Order No. 29334 at 4. Thus, ratepayers receive a rate credit when power costs are low, but are assessed a rate surcharge when power costs are high.

In addition to the three standard components described above (forecast, true-up, and reconciliation), two additional components apply to this year's PCA: a rate mitigation measure that would apply unused demand-side management (DSM) rider revenues, and a revenue sharing factor—both of which serve to reduce the proposed increase.

The revenue sharing component currently requires that customers and the Company share equally in actual year-end earnings of 10% through 10.5% return on equity (ROE), with the customer portion used to reduce rates when the PCA takes effect. Customers receive 75%, and the Company receives 25% of actual year-end earnings above 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.

The DSM Rider 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. This PCA component results in a 0.0284 cents-per-kilowatt-hour (kWh) rate credit.

Schedule 55 includes all the rate changes proposed in this filing. Company Exhibit No. 2 illustrates the proposed combined Schedule 55 rates by customer class and also breaks down the overall Schedule 55 rates by revenue sharing rates, allocated DSM Rider rates, and traditional PCA rates.

THE APPLICATION

With this Application, the Company asks the Commission to approve a \$17.3 million PCA increase for 2016-2017. This amount includes a \$3.16 million revenue sharing rate credit and a \$4.0 million DSM Rider credit, and would, in sum, increase the Company’s total annual billed revenue from customers by about 1.57%. The Company’s major customer classes would be impacted as follows:

Percentage Increase from Current Billed Rates

Residential	Small General Service	Large General Service	Large Power	Irrigation	Overall
1.35%	1.16%	1.69%	2.01%	1.58%	1.57%

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 increase as follows: Micron—2.16%; Simplot—2.29%; DOE (INL)—2.34%.

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 2016-2017 uniform PCA rate surcharge of 0.6187 cents-per-kWh (0.3422 + 0.3129- 0.0364). The Company expects this rate will allow it to recover traditional PCA costs in one year. The

proposed rate is 0.0782 cents-per-kWh higher than current PCA rates. The Company proposes to continue applying the \$4 million DSM Rider credit to the PCA. The DSM Rider credit yields a uniform rate credit for all customer classes of (0.0284) cents-per-kWh.

Concerning the revenue sharing component of the PCA, the Company’s 2015 year-end ROE for Idaho was 10.13%, resulting in a total customer benefit of approximately \$3.2 million, after tax gross-up. The Company proposes to spread the revenue sharing credit among its rate schedules based on each class’s proportional share of forecasted base rate revenues for the upcoming PCA year—2016-2017. This class-specific energy credit yields a different combined PCA/DSM Rider/revenue sharing energy rate for each rate schedule.

The following table summarizes the Company’s request broken down by PCA rate components:

Idaho Power Proposed Revenue Changes for Idaho Customers				
Description	Current (\$)	Proposed (\$)	Difference (\$)	% of increase
PCA Future Forecast	39,299,591	47,770,774	8,471,183	49%
PCA True-up (includes reconciliation of true-up)	34,652,303	38,587,844	3,935,541	23%
Associated DSM Rider Change	(3,991,365)	(3,970,036)	21,329	0%
Allocated Revenue Sharing	(8,048,717)	(3,159,478)	4,889,239	28%
PCA total	61,911,812	79,229,104	17,317,292	100%
Total Billed Revenue	1,103,115,547	1,120,432,839	17,317,292	1.57%

THE COMMENTS

Staff’s comments support the Company’s Application and recommend that, in future PCA cases, the Company’s Application include all attachments, exhibits, and workpapers in electronic format with all formulae intact. Intervenor ICIP’s comments request that the Commission direct the Company to adjust its request to account for a termination of an energy sales agreement (ESA) that was set to take effect in 2016. The Company’s reply concurs with Staff’s recommendations, and argues the ICIP’s recommendation should not be adopted because future PCA applications will reflect the terminated agreement. The comments and reply are summarized below.

A. Staff Comments

Staff verified the Company's calculations, and agrees with all of the Company's proposed PCA components. Staff concluded that "the Company complied with past Commission Orders and accurately calculated all proposed PCA components." Staff Comments at 4. Accordingly, Staff recommended the Commission approve the Company's proposed revenue sharing amounts, DSM transfer amounts, and Schedule 55 rates as filed. *See* Attachment 1 to Application.

B. ICIP Comments

ICIP argued that that the termination of Idaho Power's PURPA ESA with Pocatello Solar 1, LLC should decrease the Company's forecasted power supply cost component of this year's PCA. ICIP otherwise does not object to the Company's filing.

C. Company Reply Comments

In its reply, the Company acknowledged Staff's review and agreed with Staff's conclusion that the filed PCA components are appropriate and correct under currently approved methodology. The Company also supports Staff's recommendation that the Company file all attachments, exhibits, and workpapers in electronic format, with all formulae intact, in future PCA cases.

The Company urged the Commission to reject ICIP's argument that the PCA forecast rates should be decreased to reflect the early May 2016 termination of the Company's ESA for the Pocatello Solar 1 project. The Company explained it appropriately based its PCA forecast on its March 31, 2016, Operating Plan, which included the Pocatello Solar project, and that the subsequent termination of the project in May will appear in next year's PCA case.

FINDINGS AND DISCUSSION

We have reviewed the record, including the Company's Application and the comments filed in this case. The Commission finds it is reasonable to grant Idaho Power's Application to increase its PCA rates for the 2016-2017 PCA year. We find that the combination of the three PCA components results in a uniform PCA rate of 0.6187 cents-per-kWh. We specifically note the impact on the PCA of recovery of costs related to PURPA contracts.

The Commission is sensitive to economic conditions affecting ratepayers throughout Idaho. It is our responsibility to balance the ratepayer's desire for affordable energy prices with the Company's right to recover its costs and earn a reasonable return on its investments.

Customer comments reflect a general concern over rising rates and a perception that the Company and its executives are directly profiting from these increases. To be clear, money collected through the PCA can only be used for recovery of the Company's actual power supply expenses.

Regarding ICIP's comments, the Commission agrees that the termination of the ESA should decrease the Company's PURPA cost obligations. Nevertheless, the PCA mechanism is based on a 12-month test period running from April through March (PCA Year), and we are viewing the Application through the lens of a March 2016 Operating Plan. Because the Pocatello Solar ESA was not terminated until after the PCA Application was filed in April 2016, ICIP's proposed adjustment is outside the PCA year being considered by the Commission. A proposed adjustment relating to the Pocatello Solar project and ESA, however, should be reflected in the Company's 2017 PCA filing.

We agree with Staff's recommendation that the Company include with future PCA applications, attachments and exhibits including any supporting workpapers in electronic format with all formulae intact. Given the expedited nature of PCA filings, providing electronic versions of supporting documents with the application will ease the burden on all parties in reviewing such filings.

In conclusion, based on our review of the record, we find that the Company's present PCA rates are insufficient to enable it to recover its projected power costs for the upcoming PCA year, and it is fair, just, and reasonable to approve the Company's proposed PCA rates. *See Idaho Code* § 61-502. We find that the resulting uniform PCA surcharge rate of 0.6187 cents-per-kWh fairly and accurately reflects economic and environmental conditions. We find that the Company's proposed PCA revenue sharing of \$3,159,478 and \$4 million DSM Rider credit, are accurately calculated and mitigate the 2016-2017 PCA increase. The approved rates will enable the Company to increase its Schedule 55 revenue by \$17.3 million. We find it is fair, just, and reasonable to approve Schedule 55 rates as reflected in Attachment 1 to the Application, with an effective date of June 1, 2016.

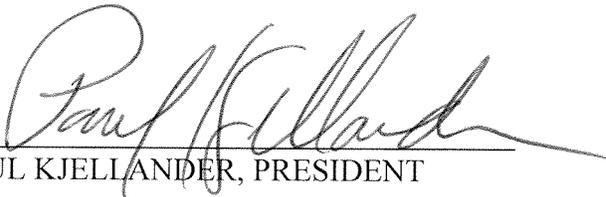
ORDER

IT IS HEREBY ORDERED that Idaho Power's Application is granted and its proposed PCA rates are approved. The approved rates include revenue sharing credit of \$3,159,478 and \$3,970,036 DSM Rider credit.

IT IS FURTHER ORDERED that Idaho Power's Schedule 55 rates, as filed in Attachment 1 to the Company's Application, are effective June 1, 2016 through May 31, 2017.

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.*

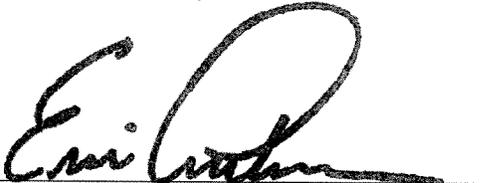
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 27th day of May 2016.



PAUL KJELLANDER, PRESIDENT

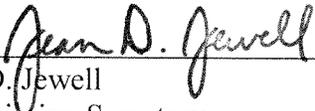


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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