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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION)

OF IDAHO POWER COMPANY FOR)CASE  NO.  IPC-E-96-5

AUTHORITY TO IMPLEMENT THE POWER)

COST ADJUSTMENT RATE FOR ELECTRIC)

SERVICE TO CUSTOMERS IN THE STATE)COMMENTS OF THE

OF IDAHO FOR THE PERIOD MAY 16, 1996)COMMISSION STAFF

THROUGH MAY 15, 1997.)

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COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and submits the following comments for the Commission’s consideration in Case No. IPC-E-96-5.

On April 15, 1996, Idaho Power Company submitted its fourth annual Power Cost Adjustment (PCA) filing to this Commission.  Idaho Power's PCA mechanism was authorized in Case No. IPC-E-92-25, Order No. 24806.  In this Application, the Company proposes a power cost adjustment rate decrease of 0.1524 cents per kWh below normal rates.  This is a decrease of 0.2279 cents per kWh below existing rates which include last year's PCA.  The Company requests that the PCA rate be effective for the period May 16, 1996 through May 15, 1997.  The previous PCA filings (1993, 1994 and 1995) increased ratepayer rates to offset higher than normal power supply costs mostly due to drought conditions.  In this fourth PCA filing, Idaho Power projects $19 million in total system forecasted power supply cost savings and carries over an approximate $3 million net overcollection from the true-up.  Therefore, for the first time in four years the Company proposal would decrease ratepayer rates below normalized levels.

THE PCA ELEMENTS

The PCA rate is normally composed of two parts, a forecast of PCA expenses for the coming year and a true-up between forecast and actual expenses for the previous year.  The forecast uses a natural log regression based upon streamflow and power supply cost data obtained from the Power Supply Model run used in establishing current rates.  The streamflow data includes a projection of April through July inflows to Brownlee Reservoir for the coming year provided by the National Weather Service River Basin Forecast Center.  Attachment No. 1 to these comments graphically shows net power supply costs as they relate to April through July Brownlee inflows as modeled in the Twin Falls case, the regression line, and the 6.75 million acre-foot runoff projections for 1996.  The box near the bottom of Attachment No. 1 shows the 1996-97 PCA expense calculation.  The top third of page 1 of Attachment No. 2 shows the calculation of the 1996-97 forecast difference spread over total system firm generation and shared at the 90 percent level between shareholders and ratepayers.

This year in its filing the Company proposes a two-part true-up.  The middle section of page 1 of Attachment No. 2 to these comments shows calculations associated with both parts:  the “1995-96 true-up” and the “1994-95 true-up correction.”  Both parts include the correction of a methodological error that has existed in all previous PCA true-ups.  The error caused true-up undercollections of the Idaho revenue requirement to be inappropriately assigned to other jurisdictions.  This year, for the first time, the Company is to true-up an overcollection.  Correction of the true-up methodology in this PCA would allow full refund to Idaho ratepayers of last year's overcollection.

The 1995-96 true-up calculations shown on Attachment No. 3 are the true-up calculations that have been part of all PCAs since the first one.  This true-up captures, in a deferral account, the difference between the forecasted and load-normalized actual PCA expense.  Actual fuel expense, non-firm purchase power expense, QF expense, surplus sales revenue, FMC secondary revenue, and system firm load were audited by the Staff.  As a result of that audit, Staff found that the October actual firm load should be 148 MWh more than represented by the Company and that $61,109.07 of actual fuel expense booked in March should have been booked in February.  Attachment No. 3 to these comments includes these very minor changes.

The Company’s proposed 1994-95 true-up correction calculations are also contained on page 1 of Attachment No. 2.  In reviewing the Company’s calculations, Staff discovered that the Company used $10,664,407 for the 1994-95 true-up instead of $9,561,995 as approved by the Commission in last year's PCA case.  Page 2 of Attachment No. 2 is the same spreadsheet except it incorporates Staff’s correction to the Company’s 1994-95 true-up correction and corrects the accounting errors previously identified in the 1995-96 true-up.  The bigger question concerning the 1994-95 true-up correction is, should it be allowed at all?  Because of a methodological error in calculation, the Company has incurred a loss.  The Company's proposed corrected methodology is consistent with its testimony in Case No. IPC-E-92-25.  Staff contends, however, that what the Company proposes by way of true-up is impermissible.  Making the proposed correction to the 1995-96 true-up is not the type of adjustment that is authorized under the PCA true-up mechanism.  Failing to identify the error and correct the methodology sooner has worked to the Company’s disadvantage because all previous true-ups were undercollections.

Page 3 of Attachment No. 2 is once again the same spreadsheet format.  The middle section shows the rate that would result if the 1994-95 true-up correction was entirely disallowed.  Of course, if the 1994-95 true-up correction is not accepted by the Commission, then the Company’s use of the incorrect true-up amount is of no consequence.

STAFF RECOMMENDATION

Staff recommends approval of a revised PCA rate of -0.1749 cents per kWh.  This rate is composed of the Company’s forecast power supply costs (-0.1247), and the Staff revised 1995-96 true-up (-0.0502).  These calculations are shown on page 3 of Attachment No. 2.  Staff does not support including the 1994-95 true-up correction.  Staff believes that reaching back to correct the 1994-95 true-up is outside the scope of the PCA as authorized by the Commission in Case No.  IPC-E-92-25.  It is true that deferred accounting is approved for the PCA true-up, however, in summarizing the PCA that it established in Case No. IPC-E-92-25, the Commission specifically limited the application of deferred accounting as follows:

The rate adjustment will be based upon the forecasted stream flows

into Brownlee Reservoir and will recover 60% of the difference

between base case power supply costs shown in the Company’s

Application and projected power supply costs using the logarithmic

fit.  During the 12 months that these rates are in effect, the Company

will calculate 100% of the difference between projected power supply

costs under the logarithmic fit and actual power supply costs adjusted

for load changes.  Sixty percent of the difference will then be booked

into a deferred account for later true-up.  (Case No. IPC-E-92-25,

Order No. 24806, p. 26.)

In its order the Commission clearly identified what was to be trued-up and the period of time that the true-up deferral was to cover.  Differences between projected power supply costs and actual power supply costs are to be deferred for later true-up and these differences are to be accumulated during the 12-month period that a specific PCA forecast would be in effect.  The Company’s proposed 1994-95 true-up correction is outside of the period for which deferred accounting is approved and therefore should be denied.

Page 2 of Attachment No. 2 shows the calculation of the PCA rate that Staff would support if the Commission, for any reason, allows the Company to include the 1994-95 true-up correction.  The difference between allowing the 1994-95 true-up correction or disallowing it amounts to $2,171,661.  The $2,171,661 produces an impact on the return on equity of approximately 0.28%.  If this error had not been made and the additional revenue was collected May 1995 through May 1996, the 50% sharing mechanism per Order No. 26216, Case No. IPC-E-95-11 would have been triggered at a return on equity of 11.75%.  The 1995 year end return on equity currently is 11.74%.  If the Commission finds Idaho Power's arguments persuasive, the Company should be required to book this correction so the customers receive the benefit of the amount that would have been shared as if it were collected in 1995.

Staff agrees with the Company that the approved PCA rate should be put in place for the period May 16, 1996 through May 15, 1997.

DATED  at Boise, Idaho, this            day of May 1996.

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