DECISION MEMORANDUM

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FROM:BRAD PURDY

DATE:MAY 12, 1997

RE:CASE NO.  IPC-E-97-6

On April 15, 1997, Idaho Power Company (Idaho Power; Company) filed an Application, testimony, exhibits and workpapers with the Idaho Public Utilities Commission (Commission) requesting a reduction in electric rates.  The filing includes the Company’s fifth annual Power Cost Adjustment (PCA) and the rate adjustment associated with the Company’s annual earnings compliance filing; Case No. IPC-E-97-5.

On April 22, 1997, the Commission issued a Notice of Modified Procedure soliciting comments in response to Idaho Power’s Application.  Comments were submitted by the Commission Staff and the Industrial Customers of Idaho Power (ICIP).  Idaho Power replied.

Commission Staff

The PCA component of the rate adjustment is composed of forecasted annual power supply costs that are far below average and a sizable true-up adjustment for last year when forecasted power supply costs were substantially below those the Company experienced.  The Company calculates the decrease over base rates established in its last general rate case to be 1.552 mills/kWh (-2.629+1.077=-1.552).  However, this is a .083 mill/kWh increase above current rates since the current PCA rate in place is -1.635 mills/kWh.  The decrease due to revenue sharing of $3,474,622 or .75 percent is enough to offset the PCA increase over existing rates such that all customer classes will experience varying amounts of rate decreases for the coming year.

PCA Forecast

Staff  has reviewed Idaho Power’s forecast of 1997-1998 power supply costs and verifies that the calculations and method are as approved by the Commission in Case No. IPC-E-92-25, Order No. 24806.

PCA True-up

Staff has audited the Company’s true-up calculations as presented in Company Exhibit No. 3.  The audit resulted in a change in one number.  April 1996 actual surplus sales were found to be $3,175,816.75 instead of $3,100,722.25.

In its filing the Company has included three first time adjustments to the true-up calculation.  In June of 1996 the Company paid $2.5 million to buy out the minimum coal delivery requirements for one year for its share of the Valmy power plant.  Company witness Said cites the reasons for the buy out in his testimony at page 7.  The overall impact is a reduction in fuel costs.  Staff accepts this cost as a legitimate power supply cost to include in the PCA.

The Company also includes an adjustment for power purchases made from Arizona Public Service Company in September, October and November of 1996.  These purchases were made under a multi-year firm contract that was the subject of Case No. IPC-E-96-18.  In that case Idaho Power requested PCA treatment of the contract.  The Commission denied PCA treatment.  A provision of that contract allowed Idaho Power to break the contract if PCA treatment was denied.  As a result of the Commission’s decision Idaho Power broke the contract in November of 1996 less than three months after it began.  Contract purchase costs for the three months were approximately 20 mills/kWh.  For the purpose of including these costs in the PCA the Company has restated them at 16.84 mills/kWh.

Staff accepts the restated costs for PCA treatment.  Staff believes that it is necessary to include the appropriate costs of this purchase in the PCA because the benefits of having the additional energy are automatically captured by the PCA.  This energy reduced actual fuel costs and purchased power costs and increased actual secondary sales revenues or went to meet growth in load in the true-up period.  Staff believes it is appropriate to restate the cost at 16.84 mills/kWh.  Within the PCA 16.84 mills/kWh represents the average marginal power supply cost of serving new load.  The PCA is not designed or intended to recover costs associated with load growth.  Without load growth Idaho Power has no need for the power.  Power supply related load growth costs are removed from PCA treatment by multiplying load growth above base conditions by 16.84 mills/kWh and subtracting that amount from actual power supply costs in the true-up period.  Therefore, if the APS energy is assumed to go to meet Idaho Power’s firm load growth, the cost would be exactly offset by the load change adjustment.

Idaho Power Company is participating, as an alternate supplier, in Washington Water Power’s Direct Access Delivery Service (DADS) experiment.  Company witness Said indicates in his testimony at Page 8 that the revenues associated with this sale have been included in actual surplus sales to offset the cost of producing the energy which is automatically captured in the PCA.  Staff has an alternative proposal.  It is Staff’s position that the cost of serving the DADS load is not incurred at average costs but that the costs are incurred at the marginal cost.  In order to hold Idaho ratepayers harmless as a result of DADS sales, costs must be removed from the PCA equal to the marginal costs of serving the DADS load.  As before, the average marginal power supply cost of serving new load is 16.84 mills/kWh.  Staff has chosen to make the cost adjustment by removing DADS revenues from surplus sales and by removing DADS costs by incorporating the DADS load as load growth thus allowing the load adjustment mechanism to remove the costs from PCA treatment at 16.84 mills/kWh.

In summary, the Company states that the power supply costs of serving the DADS load are captured by the PCA, therefore, DADS revenues should be included to offset the costs.  Staff agrees that the cost of serving the load is captured in the PCA, but instead of including revenues that do not entirely offset average marginal costs, Staff proposes a method that removes power supply costs at the margin and removes the DADS revenues added by the Company.  To the extent that the Company chooses to make sales below its marginal cost, ratepayers should not be required to make up the difference.

Revenue Sharing Rates

In Order No. 26216, Case No. IPC-E-95-11, the Commission decided that revenue sharing dollars would be spread in the following manner.

Any such refund shall be made on a uniform percentage basis

to each customer class.  Furthermore, with the exception of FMC

Corporation, refunds shall be allocated within each rate schedule

that has a separate demand and energy charge, solely on the energy

component.  The parties have agreed that FMC may, in its discretion,

elect to have the refund allocated either to demand or energy or both

and shall notify the Company accordingly.

(Order No. 26216 at Page 4)

Staff has checked Idaho Power’s calculations and verifies that they have been done according to the previously cited order.  The rates shown on Schedule 56 appropriately share $3,474,622 with Idaho ratepayers over a one-year period.

PCA Processing Time

The Staff proposes an additional two weeks of processing time be added to the one month that has been used since the PCA was established.  Staff proposes that the Company continue to file on April 15 each year but that the target effective date for rates be June 1.  The current 30 day processing period does not accommodate the additional work load associated with revenue sharing filings, when they occur, or variations from normal decision meeting dates when required by Commission schedules.

Staff Recommendations

Staff recommends Commission approval of the PCA as filed by Idaho Power with the changes contained in these comments.  Staff’s proposed adjustments to the true-up increase the refund rate by .0027 cents/kWh from .1552 cents/kWh proposed by the Company to .1579 cents/kWh.  The Staff also recommends Commission approval of the revenue sharing rate adjustment as calculated by the Company and presented as Company Exhibit No. 5 with the exception of the May 15 expiration date as explained below.  Both rate adjustments, the PCA and the earnings refund, should be effective May 16, 1997 as proposed by the Company.  Staff also proposes that future PCA’s be effective June 1 through May 31.  If the Commission accepts this proposal, the PCA and revenue sharing rates placed in effect this year should expire May 31, 1998, with the 15-day difference to be trued up in the next year’s PCA.

ICIP

The ICIP opposes Idaho Power’s inclusion of costs in the PCA associated with purchases from Arizona Public Service.  The ICIP argues that Idaho Power entered into a Purchase Agreement with APS without the prior approval of the Commission for the recovery of the costs associated with that Agreement from the Company’s ratepayers.  Although the Commission ultimately denied Idaho Power’s Application to include the purchase of firm capacity from APS in the Company’s PCA (Order No. 26668 issued November 1, 1996), the Company had already made three months of purchases under the contract.  The ICIP contends that it is unreasonable to allow the Company to include the costs of the APS purchase on the Company’s PCA when the Commission ruled that the rates paid under that contract were significantly higher than the current market rates.

Although Idaho Power has voluntarily reduced the purchase price from the contract price of 20 mills to the PCA’s load growth rate of 16.84 mills, the ICIP contends that even this plugged number is inappropriate in light of Idaho Power’s concurrent sales under Washington Water Power Company’s DADS program.  The ICIP concludes:

Idaho Power’s ratepayers should not be forced to pay Idaho Power 16.84 mills per kwh for contract purchases that have been explicitly disapproved by this Commission while at the same time Idaho Power is making sales, due to “favorable hydro conditions” at a cost of only 10 mills per kwh.

ICIP Comments at p. 4.

The ICIP recommends that Idaho Power’s APS purchases be included in the PCA at the same rate that Idaho Power alleges it was able to produce energy for sales to Washington Water Power’s customers under the DADS program (i.e., 10 mills per kwh).

Idaho Power Reply

Idaho Power does not oppose Staff’s first adjustment relating to the booking error in the April 1996 actual surplus sales value.  The Company does, however, oppose Staff’s recommendation that the Company should reduce its power supply expenses by 16.84 mills per kwh for each megawatt hour sold to DADS customers.  The Company contends that Staff’s proposed treatment of DADS revenues is inconsistent with the previous treatment of short-term sales contracts as reflected in previous PCA filingS.  For example, the Company notes, in the current PCA year, the revenues from a short-term, firm contract with PGE at 24 mills per kwh were included as surplus sales.  Idaho Power argues that it is not appropriate to treat one short-term firm contract in a manner different from other similar contracts for PCA true-up purposes.  Idaho Power states that over the last three years, it has included $22 million of revenues from a PGE short-term firm contract at 24 mills rather than treating this short-term firm contract as load growth priced at 16.84 mills.  The Company concludes that utilizing the methodology of treating short-term firm contracts in a manner similar to surplus sales, Idaho customers have received over $6.5 million of benefits from the PGE contract in this three-year period.

Moreover, the Company contends that Staff’s recommendation will have a chilling effect upon the Commission’s stated desire to encourage pilot projects involving the sale of power in more innovative ways.

Idaho Power opposes the ICIP’s contention that APS contract costs be reduced.  The Company states that the argument it uses to oppose Staff’s recommendation to not treat the DADS revenues as surplus sales revenues is applicable to the ICIP’s proposal to reduce APS contract costs.

Idaho Power opposes Staff’s proposal to change the effective date for the PCA from May 16 to June 1st of every year.  Idaho Power argues that the purpose of the PCA was to match rates with costs and that because of the increased usage by irrigation customers during the month of May, it is important to have rates in place during the month that reflect current water conditions.

Commission Decision

Does the Commission accept the accounting adjustment proposed by Staff?

Does the Commission accept the $2.5 million one year buy-out of the Valmy minimum delivery requirements?

How does the Commission wish to treat Idaho Power’s DADS sales:

a)Company proposal—offset the costs with revenues at approximately 10 mills/kwh?

b)Staff proposal—remove both revenues and costs from PCA treatment with costs removed at the average marginal cost level of 16.84 mills/kwh?

c)Some other way?

How does the Commission wish to treat ADS contract costs:

a)Include the power purchase at 16.84 mills/kwh, or

b)Include the power purchase at 10 mills/kwh?

Does the Commission agree with Idaho Power that the Idaho jurisdictional share of any PCA adjustments to the Company’s case need to be shared equally (50/50) between ratepayers and shareholders due to earnings review provisions?

Does the Commission wish to make these decisions now and put rates in place on May 16?  Does the effective date need to be delayed to allow more input or clarification?  Should rates be put into effect on May 16 with some decisions made later and the difference trued-up next year?

Brad Purdy

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