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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT THE POWER COST  ADJUSTMENT RATE AND REVENUE SHARING RATE FOR ELECTRIC SERVICE         TO CUSTOMERS IN THE STATE OF IDAHO  FOR THE PERIOD MAY 16, 1997 THROUGH  MAY 15, 1998. | )  )  )  )  )  )  )  )  ) | CASE NO. IPC-E-97-6  COMMENTS OF THE  COMMISSION STAFF |

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Brad Purdy, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued on April 22, 1997, submits the following comments.

COMPANY CASE

On April 15, 1997, Idaho Power Company (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.

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

The Staff of the Idaho Public Utilities Commission (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.  Attachment 1 to these comments is a graphical representation of the forecast.

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.  Attachment 2 to Staff’s Comments incorporates this correction along with other changes discussed below.

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.

The 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.  The DADS load and associated revenues are shown on Attachment 3.

In summary, the Company says 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.

Attachment 2 shows the results of the true-up calculation with all changes proposed by the Staff included.  Differences in spreadsheet inputs between the Company’s filing and Staff’s filing are bolded.

STAFF PROPOSED PCA RATES

Attachment 4 to these comments shows the calculation of the Staff proposed PCA rate.  The first two sections calculate the forecasted rate and the true-up rate.  The remaining sections show the combined PCA rate, the PCA rate set last year which is currently in effect, the difference between the two rates and, near the bottom, the expected Idaho jurisdictional revenues associated with the different rates.

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.

DATED  at Boise, Idaho, this            day of May 1997.

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Brad Purdy

Deputy Attorney General

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