(text box: 1)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 FOR ELECTRIC SERVICE TO CUSTOMERS IN THE STATE OF IDAHO FOR THE PERIOD MAY 16, 1998 THROUGH MAY 15, 1999. | )  )  )  )  )  )  )  ) | CASE NO. IPC-E-98-5  ORDER NO.  27516 |

On April 15, 1998, the Idaho Power Company (Idaho Power; Company) filed an Application for authority to implement the Power Cost Adjustment (PCA) rate for electric service to customers in the state of Idaho for the period May 16, 1998 through May 15, 1999.  In its Application, Idaho Power states that, in compliance with Commission Order No. 24806, the PCA for the period May 16, 1998 through May 15, 1999, consists of (1) 90% of the difference between the projected power cost and the Commission’s approved base power cost and (2) the true-up of the 1997/1998 power costs.  The projected power cost was computed in compliance with Order No. 24806 by inserting the National Weather Service Northwest River Forecast Center’s projection of 4.78 million acre feet of April through July Brownlee stream flow run off into the Commission adopted equation for projecting PCA expenses.  The resulting projected power cost of $75,646,228 equates to a cost of 0.5442¢ per kWh.  This 0.5442¢ is 0.0509¢ per kWh higher than the Commission’s approved base of 0.4933¢.  By Commission Order No. 25880, the Company is authorized to adjust rates by 90% of the 0.0509¢ per kWh difference, or 0.0458¢ per kWh.

The true-up component of the PCA is 0.1439¢ per kWh resulting entirely from increased expenses associated with QF purchases.  The difference between the projected power cost and the base power cost and the true-up combined to produce a PCA for the period May 16, 1998 through May 15, 1999, of 0.1897¢ per kWh.  The change in the PCA to 0.1897¢ from the existing -0.1552¢ currently in effect results in an increase to existing rates of 0.3449¢ per kWh.

On April 22, 1998, the Commission issued a Notice of Application/Notice of Modified Procedure soliciting comments in response to the Company’s Application.  The only party to file comments was the Commission Staff.

Staff’s Comments

In analyzing this year’s PCA, Staff notes that a substantial portion of the rate increase captured in this year’s adjustment is due to the deferral of large increases in PURPA qualifying facility (QF) costs.  Staff believes that factoring in the Company’s QF costs under the current methodology creates two problems.  First, the balance of the deferred amount of the Company’s QF purchases has become so large that it has the potential to defeat the original intent of the PCA.  Second, Staff notes that QF expenses are expected to grow every year.  The PCA true-up mechanism, however, is designed to capture annual fluctuations in the Company’s power supply costs.  When the PCA was originally designed, Staff observes, it was assumed that those years in which power supply costs exceed the normalized base level would be more or less equally offset by those years in which they were less than the base level.  With the deferral of Idaho Power QF purchases continuing to accumulate, Staff reasons, the annual PCA will more than likely be a surcharge rather than a credit.  Staff proposes that it coordinate with Idaho Power and all interested parties to devise a methodology that would either eliminate the QF costs from the PCA entirely or factor them into the Company’s normalized base level of power supply costs.

Staff also notes that Idaho Power recently renegotiated its special contract with FMC.  Under the terms of that renegotiated contract, recently approved by the Commission in Order No. 27463, Case No. IPC-E-97-13, Idaho Power will obtain a relatively greater percentage of its revenue from FMC under FMC’s primary rather than secondary block.  Staff notes that under the current PCA methodology, however, only FMC’s secondary block revenue differences are captured in the calculations.  Consequently, Staff and Idaho Power devised a new methodology for reflecting differences in FMC revenue earned by Idaho Power in the Company’s PCA.  That new methodology fully incorporates the contract changes into Idaho Power’s PCA base in a manner that matches FMC revenues with FMC costs.

Finally, Staff proposes to limit this year’s PCA rate increase to 7%, on average, over last year’s rates.  Staff argues that the Commission reserved the right to limit the amount of PCA rate changes that could occur in any given year in the interest of rate stability when it originally adopted the PCA.  Staff proposes that this year’s PCA rate increase in excess of 7% over existing rates be recovered in next year’s PCA.

Idaho Power Response

Idaho Power filed a response to Staff’s comments.  Idaho Power agrees with Staff’s characterization of the new methodology devised to capture the changes contained in the Company’s renegotiated FMC contract.  Idaho Power opposes, however, Staff’s proposal to defer a portion of this year’s PCA rate increase in the interests of rate stability.  The Company notes that in Order No. 24806, issued in Case No. IPC-E-92-25, the Commission stated that it would limit PCA rate increases to 7% above the Company’s normalized base revenues for the Idaho jurisdiction.  In years where the PCA would result in an increase greater than 7% of the Company’s normalized base revenues, then the Commission left open the option of fashioning a means to defer a percentage of that year’s power supply cost recovery.  Idaho Power points out that this year’s PCA rate increase is 8.46% over existing rates but is only 4.12% above the Company’s normalized base revenues.  Consequently, Idaho Power argues, this year’s PCA does not exceed the 7% limitation adopted by the Commission in Order No. 24806.

FINDINGS

We hereby approve this year’s PCA.  First, we agree with Staff that serious consideration should be given to the possibility of eliminating the Company’s QF costs from the annual PCA or somehow factoring those costs into the base level given Idaho Power’s increasing QF deferral balance.  We encourage the Staff to work with the Company and other interested parties to devise a method to reduce the annual impact of QF costs on the PCA.

Next, we hereby approve the methodology devised by Idaho Power and the Commission Staff for reflecting the revised terms of the FMC contract in Idaho Power’s PCA calculations.  The new methodology, which was not opposed by any party to this proceeding, including FMC, appropriately captures changes in the Company’s costs and revenues associated with supplying power to FMC.

Finally, we reject Staff’s proposal to defer a portion of this year’s PCA rate increase.  We appreciate Staff’s sensitivity to this Commission’s long-recognized goal of maintaining rate stability.  Nonetheless, when we adopted Order No. 24806, we fashioned what we believe to be a reasonable safeguard to maintain rate stability.  That is the limitation of PCA rate increases to 7% over normalized base revenues.  We believe that the 7% limitation on PCA rate increases is still a reasonable safeguard to assure rate stability for Idaho Power’s customers.  We also note that while this year’s PCA results in a rate increase of 8.46% over existing PCA rates, those existing rates were  3.88% below the Company’s normalized base level.  One of the primary purposes of implementing Idaho Power’s PCA was to capture for ratepayers the benefits of reduced power supply costs due to good water conditions.  The fact that for the past two years customers have enjoyed rate reductions to reflect outstanding water conditions is proof that the benefits anticipated are being realized.  This year, forecasted flows are significantly less than last year, and are below what is considered to be normal.  Thus, a surcharge is warranted under the PCA.  We find that an increase of 8.46% from one year to the next is not outside the range of reasonableness when that increase is measured from a credit for dramatically good water conditions.  We further find that adoption of Staff’s proposal could set the stage for perhaps even larger increases next year if forecasted flows at Brownlee again are less than average.  It is not prudent to push recovery of a portion of the PCA into such an uncertain future.

O R D E R

IT IS HEREBY ORDERED that the PCA rate increase to .1598¢/kWh filed by Idaho Power in this case is approved subject to the terms and conditions set forth herein.

IT IS FURTHER ORDERED that the PCA methodology proposed by Idaho Power and the Commission Staff to reflect the renegotiated FMC special contract is hereby approved.

THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-98-5  may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-98-5 .  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                  day of May 1998.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

vld:O:IPC-E-98-5.bp

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

May 13, 1998