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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 FOR ELECTRIC SERVICE TO CUSTOMERS IN THE STATE OF IDAHO FOR THE PERIOD MAY 16, 1998 THROUGH MAY 15, 1999. | )))))))) | CASE NO. IPC-E-98-5COMMENTS 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, 1998, submits the following comments.

On April 15, 1998, Idaho Power Company (Company) filed an Application, Testimony and Exhibits with the Idaho Public Utilities Commission (Commission) requesting an increase in electric rates.  The filing is the Company’s sixth annual Power Cost Adjustment (PCA).  The Company’s Application includes a rate increase of .3449¢/kWh over current rates.  This equates to a .1897¢/kWh increase over base rates.  Last year, Idaho Power’s rates were decreased

.1552¢/kWh.  This amounts to an increase in Idaho jurisdictional rates of approximately 37.1 million dollars, and an average rate increase of 9.24 percent with large customers averaging approximately 15 percent.

Carry-Over From Last Year

Last year’s PCA, Case No. IPC-E-97-6, Order No. 26924, identified a difference in surplus sales revenue discovered in Staff’s audit that amounted to $75,094.50 that was to be reduced for jurisdictional allocation and revenue sharing with the balance carried forward in this year’s true-up calculations.  That reduced amount of $28,689.86 has been properly accounted for in this year’s true-up.  It shows up as a benefit to ratepayers in the beginning balance for April of 1997.  Staff has not identified any audit adjustments for this PCA filing.

Water Conditions

Water conditions play a large role in this year’s total rate increase.  Not because this year is forecasted as a poor water year but because last year was forecasted, and proved to be, an exceptionally good water year.  This year’s runoff is forecasted only slightly below normal.  The result of the expiration of last year’s relatively large rate decrease and this year’s forecasted relatively small increase is that Idaho Power Company’s total power supply costs are expected to be 43.2 million dollars higher due to water conditions alone in the coming year.

Power Marketing

In mid-year 1997, the Company began very substantial power marketing activities.  As part of the PCA, the dollar amounts of surplus sales and non-firm purchases in the PCA year are compared to normalized amounts from the base condition and 90 percent of the difference is deferred.  If increases in surplus sales revenue exceed increases in non-firm purchase costs, ratepayers benefit.  If the opposite is true, ratepayers are surcharged and shareholders benefit.  The true-up portion of the PCA calculates this difference because these categories of expense and revenue are expected to, and do, vary under differing water conditions.  In isolation, good water conditions increase surplus sales and decrease surplus purchases while poor water conditions do the opposite.  Changes in surplus sales and purchases due to water conditions are not easily distinguishable or, in the end, completely distinguishable from changes caused by marketing.  Staff’s review of the Company’s marketing activities indicates that these activities are done primarily for hedging purposes, but, occasionally on a speculative basis.  The impacts of such activities have the potential to substantially alter PCA results either to the benefit or detriment of customers.  Because these revenues and costs are captured in the PCA, profits and losses are shared with customers.  For the purpose of this PCA filing, the Company contends that it made a small profit and Staff’s review has not found otherwise.

QF Deferral

Another very substantial part of the rate increase captured in this year’s PCA is due to the deferral of large increases in PURPA Qualifying Facility (QF) costs.  Normalized total company annual QF costs included in rates are 34.1 million dollars.  QF costs for last year were 57.5 million dollars.  Idaho’s share of the 23.4 million dollar difference is 19.8 million dollars in costs which are to be passed on to customers through the PCA.

The substantial increase in QF costs creates two PCA problems.  First, it has become so large that it has the potential to defeat the original intent of the PCA.  Hypothetically, forecasted power supply costs from a relatively good water year that translate into 20 million dollars in savings for Idaho ratepayers would be entirely offset by a 20 million dollar true-up of QF costs, and, in a much worse scenario, a poor water year that translates into 20 million dollars in additional costs for ratepayers would become 40 million dollars in additional costs when the anticipated QF deferral is added.  The fix to the PCA is to remove QF costs from PCA treatment entirely, or to include them in base rates such that the differences between base and actual captured in the PCA once again becomes small.

The second QF concern relates to the fact that, at least for the foreseeable future, QF expenses are expected to grow every year.  The PCA true-up mechanism, by design, relies upon a fluctuation between surcharge and rebate balances from year to year to compensate for differences caused by firm load growth.  Once the dollar amount of the true-up is determined, it is divided by normalized Idaho firm load which normally is established in a rate case.  If the true-up amount is passed back to customers in a forecasted year where firm load has grown, the true-up amount is over or under collected as a result of selling more energy than expected.  Rebates are over refunded and surcharges are over collected.  If the probability of surcharges and rebates of equal amounts is equal, then the differences wash and all is well.  If, as is the case with QF deferrals, the amount to surcharge is ever increasing, there is always an over recovery of that amount when there is load growth.  The amount of the over recovery depends on both the size of the QF deferral built into the true-up rate and the number of firm kWh’s sold beyond the normalized amount.  Regular rate cases that reset the QF base and the normalized firm load base would all but eliminate the problem.  Removal of QF costs from the PCA completely would eliminate the PCA problem but create the problem of how to deal with increased QF costs that the Company is entitled to recover.  Staff proposes no solution this year.  However, Staff will continue to work with the Company to identify possible solutions.

FMC Contract Effects

Following the Company’s filing initiating this case, Staff and the Company met to discuss some mutual concerns about the implementation of changes associated with the new FMC contract.  As a result of these meetings, the Company and Staff have jointly agreed to the treatment presented in these comments which is somewhat different than that presented in the FMC contract case and included in Order No. 27463.  If the Commission accepts the methodology presented here, then the section in Order No. 27463 titled “Idaho Power’s Power Cost Adjustment Changes” should be superseded by this methodology.

The problem discovered with the previously mentioned methodology is that for PCA purposes, only FMC secondary/second block revenue differences are captured in the calculations.  The new FMC contract, under the assumptions contained in the Commission’s order, reduces secondary/second block revenue by approximately 4.5 million dollars annually.  At the same time, under the assumptions contained in the Commission’s order, FMC primary/first block revenue increases by an offsetting amount.  Staff and the Company agreed that capturing increased costs but not increased revenues is inappropriate.  Several ways of correcting the problem were discussed.  The Company and Staff decided that the correct way to address the problem was to fully incorporate the contract changes into the PCA base.  Contract changes can only be incorporated in base PCA rate calculations because the contract changes have no net effect on the Company’s revenue requirement and power supply costs.

Attachment 1 to these comments, consisting of three pages, was developed by Staff to examine FMC contract changes in isolation.  This was done by eliminating differences in other variables; including water, QF and load.  The differences were eliminated by assuming actual conditions to be at normalized levels.  The base conditions in the forecast and in the true-up that are affected by FMC contract changes were then reset to reflect expected results.  As a result, only differences from these expected levels will be captured by the PCA, which has always been the purpose of the PCA.  Attachment 1 results demonstrate that if actual FMC second block results are as expected, then no true-up balance either for rebate or surcharge is accrued.

Two kinds of changes were required in the forecast and true-up portions of the PCA to account for changes in the FMC contract.  First, base FMC second block revenue was reset to the expected level of $9,074,032 from $13,585,602.  Second, normalized firm energy amounts were increased by 51,840 MWH to account for the increase in FMC’s first block load.  These changes are shown in bold italics on all pages of Attachment 1.  Results shown on Attachment 1 validate the model methodology, both for the forecast and true-up.  Model results are consistent with the joint Staff and Company position that the recently approved changes in the FMC contract should cause no changes in power supply costs or the Company’s revenue requirements when the assumed operations and market costs actually occur.

Attachment 2 shows the calculations that Staff and the Company believe to be appropriate for this year’s PCA.  It applies the forecast methodology developed in Attachment 1, but uses the true-up methodology that is appropriate for last year.  It is last year’s true-up and all balances were accumulated prior to the approval of the new FMC contract.  The one true-up difference is that true-up costs are spread over the new Idaho jurisdictional firm load, 10,802,636 MWh, since it is spread to ratepayers during the time period that the new contract is in effect.  The true-up methodology developed in Attachment 2 will be applicable in its entirety next year when the true-up includes the time period that the FMC contract is in place.

Rates and Rate Stability

The Company’s initial filing requested a rate increase from last year’s PCA rates to this year’s PCA rates of .3449¢/kWh which would have increased the Company’s revenue and customer rates by approximately 37.1 million dollars.  Attachment 3, pages 1 and 2, show the effects of implementing the increases calculated in Attachment 2 which updates the base for FMC contract changes.  Page 1 shows the increase from last year’s PCA rate to this year’s PCA rate to be 8.46 percent or approximately 34 million dollars.  Page 2 shows the increase from the base rate to this year’s PCA rate to be 4.12 percent or approximately 17.3 million dollars.  Attachment 3 calculations include the changes in PCA methodology mutually agreed to by the Company and Staff.

For the purpose of limiting the impact of the rate increase to customers, Staff, without Company concurrence, proposes to limit the increase over last year’s rates to 7 percent on average.  This requires that the PCA rate increase over base be .1055¢/kWh and that $5,865,831 be deferred for recovery in next year’s true-up.  Case No. IPC-E-92-25, Final Order No. 24806, page 14, identifies two different situations where increases over the base rate that exceed 7 percent require the Company to “make a filing with the Commission for the purpose of determining whether a means to defer a percentage of that years power supply cost recovery should be investigated.”  Neither of those situations have occurred here.  The increase from last year’s rate to this year’s rate as calculated on Attachment 3 is 8.46 percent.  However, the increase over the base rate is only 4.12 percent.  Staff believes that the overall PCA increase of 8.46 percent is large enough to justify special treatment.  Attachment 4, pages 1 and 2, once again show increases from last year’s PCA rate to this year’s PCA rate and increases from the base rate to this year’s PCA rate, respectively.  Limiting the PCA to PCA average increase to 7 percent reduces the base condition to PCA increase to 2.72 percent.  Under Staff’s proposal it is expected that the Company will collect approximately 28.2 million dollars in firm revenue more than it did last year.

This rate stability proposal is not without risk.  Normal water next year would still require an approximate 26 million dollar surcharge over base rates which would require the PCA rate to stay approximately the same.  Water conditions only slightly below normal or increases in QF costs or decreases in FMC second block revenue could cause next year’s PCA surcharge to be even more than this year’s.

STAFF RECOMMENDATION

Staff and the Company recommend the changes in the PCA that result from changes in the new FMC contract as identified in Attachments 1 and 2.  These changes require that the section in the final FMC order, Order No. 27463, titled “Idaho Power’s Power Cost Adjustment Changes” be superseded by the Company and Staff changes proposed in these comments.  For the purpose of minimizing rate increase impacts on customers, Staff, without Company concurrence, recommends that a portion of this year’s calculated rate increase be deferred for recovery next year such that the average increase in rates from last year’s PCA rate to this year’s PCA rate is capped at 7 percent.

Respectfully submitted this                  day of May 1998.

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Brad Purdy

Deputy Attorney General

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