(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 INCLUDE IN ITS PCA PROJECTION METHOD, COMMENCING WITH THE COMPANY’S 1999 PCA FILING, RECENT EXPENDITURES FOR QF POWER PURCHASE CONTRACTS. | )  )  )  )  )  )  )  ) | CASE NO. IPC-E-98-13  ORDER NO. 27997 |

On November 2, 1998, Idaho Power Company (Idaho Power; Company) filed an Application in this case for authority to modify the manner in which the Company makes its Power Cost Adjustment (PCA) calculations so that variations in PURPA(footnote: 1) costs are included in the Company’s PCA projections for the coming year.  The Commission processed Idaho Power’s Application through modified procedure.  The only party to file comments was the Commission Staff.  After reviewing Staff’s comments, the Commission directed Staff and the Company to submit briefing on the issues raised by Staff.  We hereby approve Idaho Power’s Application as submitted (with the numerical modification proposed by Staff and accepted by the Company) but decline, at this time, Staff’s proposal to modify the PCA in order to capture what it terms are “benefits” attributable to QF purchases.

HISTORY OF IDAHO POWER’S PCA

During the mid to late 1980s, and early part of this decade, Idaho Power experienced considerable cash flow problems resulting from the extended periods of drought experienced in the region.  In drought years when hydro generation quantities are low, the Company must rely more on relatively higher cost purchased power and coal plants to meet its customers’ energy needs.  Because Idaho Power’s base rates are designed to recover power supply costs(footnote: 2) based on normal stream flow conditions, this can leave the Company with a significant revenue shortfall during extended periods of drought.  Consequently, the Company requested and received two drought-related surcharges; one in 1988 and the other in 1992.

In late 1992, Idaho Power filed an Application in Case No. IPC-E-92-25 proposing a PCA mechanism that would work as follows.  First, Idaho Power’s “baseline” power supply costs were calculated.  These are the Company’s normalized costs calculated based on the average of multiple streamflow conditions and other normalizing assumptions.  Stated in other words, these are the power supply costs that the Company can assume it will incur in an average year.  Second, the Company developed a mechanism to forecast power supply costs for the coming year based on forecasted stream flow conditions at the Company’s Brownlee Reservoir.  If the forecasted costs exceeded the baseline costs, then under the PCA Idaho Power would be entitled to collect the estimated difference from ratepayers over a one year period beginning in May or June.  If the forecasted costs were expected to be less than baseline costs, then the Company’s rates would be adjusted accordingly over the same one year period.

Power supply costs were forecasted based on streamflow conditions and using a logarithmic calculation that would automatically estimate the net effect of expected coal costs, purchased power costs and secondary (off-system) sales revenue.  PURPA contract purchases are not substantially affected by streamflow conditions or market prices and were forecast at normalized levels.  The FMC second block effects were also forecast at normalized levels.  The PCA surcharge or refund would be calculated each spring once streamflow data were available.  Commencing with the end of the first year and for every year after, it would be necessary to have a “true-up” calculation to account for differences between forecasted and actual power supply costs.  The true-up calculation would be made and factored into the PCA adjustment in May with the forecast for the following year.  The true-up could either be a plus or minus (i.e., surcharge or refund) in any given year depending upon the accuracy of the original forecast.

Following a three day hearing, the Commission issued Order No. 24806 on March 29, 1993 approving the Company’s request for a PCA.  The Commission’s Order dealt with numerous issues.  The issue relevant to this case has to do with the percentage of variations in power supply costs that the Company is allowed to recover through the PCA.  Concerned that the guaranteed recovery of its power supply costs would deprive Idaho Power of any motivation to keep its costs at a minimum, several parties to the case proposed that Idaho Power only be allowed to recover or required to refund a percentage of the projected difference between baseline and forecasted power supply costs.  For instance, Staff proposed a 50-50 sharing of variations in all costs, including PURPA purchases.

The Commission ultimately adopted a compromise or hybrid PCA that allowed Idaho Power to pass 90% of the cost difference between baseline and projected power supply costs on to ratepayers either through a surcharge or refund.  With respect to PURPA costs, however, the Commission decided to allow the Company to pass through 100% of costs actually incurred based on the fact that the Company is mandated by federal law to incur these costs.  Staff advocated a 50-50 sharing of variations in PURPA costs on the basis that as the Company approached load resource balance, it relied on PURPA costs to serve firm system load and, therefore, those costs should be treated like any other purchased power cost.  In response, the Commission stated:

We agree with Staff that CSPP has taken on added importance for the Company as we approach load resource balance.  It may become necessary to reconsider our treatment of these costs at a future time.  For now, however, we are still committed to allowing the Company a 100% recovery of a resource that it is forced to acquire under federal law.  Including CSPP costs in the PCA is a more consistent and predictable procedure than is currently in place.  We find, therefore, that the Company will be allowed to include 100% of CSPP costs in the PCA.  Like any other cost, it will be trued-up to actual expense.

Order No. 24806 at p.17 (emphasis added).

CURRENT CASE

Commission Staff’s Position

As originally designed, Idaho Power’s PCA forecasts PURPA costs at normalized levels and captures the difference between normalized and actual in the true-up.  Since the time the base was established in Idaho Power’s last general rate case, the Company’s PURPA costs have increased significantly.  As a result, a very substantial true-up must be made each year to account for the fact that PURPA costs actually incurred are higher than PURPA costs contained in normalized baseline levels.  Seeking to avoid these true-ups, the Company now requests authority to include estimated variations in PURPA costs in the PCA forecast so that the money is collected during the year that the costs are incurred instead of the following year through the true-up.

Staff does not oppose this.  Staff proposed a refinement to the forecast which the Company has accepted.  However, Staff brought up another concern.  PURPA purchases must be viewed not only as costs, but also as resources that have a positive monetary value to ratepayers.  When Idaho Power purchases power from a QF, it foregoes the need to purchase that same power on the open market or to generate it itself. It also has that power available to sell off-system.  Consequently, PURPA purchases have the twin effect of increasing and decreasing the Company’s power supply costs.  The problem is, that the PCA, as currently designed, captures all of the  variations in the costs, but only 90% of the aforementioned benefits.  This was not a significant problem when the growth in PURPA costs above baseline levels was small.  In fact, it would not be a problem if PURPA costs, like other power supply costs, fluctuated so that in some years they exceeded baseline levels and in other years they are less.  The resulting effect would be a “wash.”  The fact is, however, that at the present time, PURPA costs are roughly 50% higher than baseline levels and are expected to remain well above baseline levels for years to come.

Initially, after the implementation of the PCA, Idaho Power’s PURPA costs began to increase but at such a slow rate that the problem addressed in this filing simply did not occur to Staff (although Staff did propose allowing the Company to recover only 50% of the variations between baseline PURPA costs and actual as noted earlier).  Simply put, Staff did not contemplate the effect of PURPA cost increases, as they related to the Commission’s decision, back in 1992.  Since the Company’s last general rate case, however, PURPA costs have increased at such a significant rate that the consequences have become obvious.

 In its comments previously submitted in this case, Staff has devised and proposed a formula for quantifying and sharing with ratepayers the additional 10% of benefits associated with PURPA purchases.  To the same extent that rising PURPA costs warrant a modification of Idaho Power’s PCA forecast calculation, they warrant a modification to the PCA to ensure that ratepayers are treated equitably and given credit for 100% (as opposed to 90%) of the benefits associated with PURPA purchases.  Under Idaho Power’s proposal, the Company will be compensated for 100% of PURPA costs but share only 90% of PURPA benefits.  This 10% difference becomes increasingly significant as PURPA purchases rise between general rate cases.  In fact, Staff estimates that, based on current levels, the 10% difference will amount to approximately $365,000 per year every year until the next general rate case, assuming that there are no new PURPA additions.  If there are, the amount will be even greater.

Although Idaho Power did not specifically argue in its previously filed comments that the Commission is prohibited from issuing Orders that reach different conclusions or have different results from previously issued Orders, there seems to be the inference in the Company’s comments that it would somehow be unfair or inappropriate for the Commission to adopt Staff’s proposal in this case for that very reason.  In fact, Idaho Code § 61-624 provides that “the commission may at any time, upon notice to the public utility affected, and after opportunity to be heard...rescind, alter or amend any order or decision made by it.”  Even though the Commission has the authority to do so, Staff argues that it is not proposing in this case that the Commission “rescind, alter or amend” the original PCA Order.  Staff believes that, quite frankly, nobody, including Idaho Power, contemplated in 1992 the effect that significant increases in PURPA purchases would have on the PCA.  That explains why the Company is now, for the first time, seeking to modify the PCA in light of PURPA increases.  Consequently, Order No. 24806 simply does not speak to the issue at hand.

As the Commission itself noted in Order No. 24806 referring to the treatment of PURPA costs in Idaho Power’s PCA: “It may become necessary to reconsider our treatment of these costs at a future time.”  Id. at p.17.  In any event, Staff urges the Commission to refrain from the futile exercise of trying to determine what the Commission’s intent was when it issued Order No. 24806.  It is simply unnecessary.  The relevant question is whether, at this moment, Idaho Power’s PCA is just and reasonable or whether modifications are necessary.  If the latter is true, then the Commission is certainly not legally prohibited from modifying the PCA.  To the same extent that Idaho Power is now entitled to seek a modification of the PCA to something other than what the Commission first adopted, so is the Commission Staff.

Idaho Power’s Response

Idaho Power points out the fact that it has relatively little control over the acquisition of  QF power and that the Commission sets the rates for QF purchases, pursuant to PURPA, at levels that Idaho Power have historically argued were too high.  The Company asserts that it should “not have to accept any risk of loss as to QF purchases.”  IPCO Br. at 5.  Idaho Power concludes that “[t]he benefits of QF that the Commission envisioned has yet to occur.” [sic]  Id. at 6.  The Company further argues that Staff’s “use of the term benefit is inaccurate since QF purchases are all above market and the Company is only entitled to recover 90% of the reduced cost or increased surplus sales.” Id.  Thus, Idaho Power asserts that the “benefit” identified by Staff “is almost certain to be an ongoing penalty to the Company.” Id.

Idaho Power concludes by taking exception to Staff’s assertion that no one contemplated the effect that QF purchases would have on the Company and the PCA.  The Company notes that it has consistently asserted that it is entitled to recover all of its required QF expenditures without penalty.  Idaho Power agrees that the Commission may lawfully rescind, alter or amend a prior order but that the Staff has not satisfied its burden of proving that such a result should occur in this proceeding.

FINDINGS

We hereby approve Idaho Power’s Application to include the known value of QF costs in the projection formula with the refinement proposed by Staff.  As Idaho Power points out, such an adjustment will have no net rate effect but will simply shift recovery from the true-up to the forecast.  To the extent any party can devise methods for improving the accuracy of the PCA forecast and minimize true-ups, we support such proposals.  We authorize Idaho Power to increase the QF constant in the PCA by $13,460,080 or to $47,574,344.  This varies from the Company’s original proposal of $51,882,240.  As noted above, Idaho Power does not object to this modification.

Regarding Staff’s proposal to further modify the PCA to incorporate the additional 10% of  the lost “benefits” that Staff contends result from the current PCA formulation, we find that this issue raised by Staff warrants further consideration.  We find, however, that the record in this case is not an adequate basis for requiring Idaho Power to implement the changes proposed by Staff for this year’s PCA adjustment.  Staff may file a motion with the Commission seeking implementation of their adjustments in future PCA filings.  The revision in QF forecast methodology approved by this Order is to be incorporated in the Company’s 1999 PCA.

O R D E R

IT IS HEREBY ORDERED that the Application of Idaho Power Company for authority to adjust its PCA calculation to more accurately forecast the Company’s QF costs is approved consistent with the terms and conditions set forth above.

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-98-13  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-98-13 .  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 April 1999.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           MARSHA H. SMITH, COMMISSIONER

PAUL KJELLANDER, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**FOOTNOTES**

1:

 “PURPA” is the Public Utilities Regulatory Policies Act of 1978 in which Congress mandated, among other things, that investor-owned utilities purchase energy from small power producers known as Cogeneration and Small Power Producers” (CSPP) or as “Qualifying Facilities” (QFs) at administratively determined rates known as “avoided costs.”

2:

 For purposes of this discussion, “power supply costs” are defined as the cumulative cost of the Company’s coal purchases, power purchased by Idaho Power from other utilities/suppliers on the open market, and PURPA purchase costs, net of revenues received by the Company from its off-system sales and net of FMC second block effects.  There are, of course, other costs that Idaho Power incurs in generating and providing power to its customers.  The purpose of the PCA, however, is to recover variations only in those cost elements listed above.

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

April 8, 1999