BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

Office of the Secretary

Service Date

May 14, 1999

|  |  |  |
| --- | --- | --- |
| **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, 1999, THROUGH MAY 15, 2000.** | **)****)****)****)****)****)****)****)** | **CASE NO. IPC-E-99-3****ORDER NO. 28049** |

 On April 15, 1999, the Idaho Power Company (Idaho Power; Company) filed an Application for approval of tariff Schedule 55 implementing a power cost adjustment (PCA) of ‑0.2143¢ per kWh and related tariffs incorporating the PCA adjustment for the period May 16, 1999 through May 15, 2000.

 Idaho Power’s Application states that, in compliance with Commission Order No. 24806 approving the Company’s PCA mechanism in Case No. IPC-E-92-25, the Company’s PCA for the period May 16, 1999 through May 15, 2000, 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 1998/1999 power costs. The projected power cost was computed in compliance with Commission Order No. 24806 by inserting the National Weather Service Northwest River Forecast Center’s projection of 7.36 million acre feet of April through July Brownlee stream flow run off into the Commission adopted equation for projecting PCA expenses. According to the Company, the resulting projected power cost of $61,812,157, equates to a cost of 0.4430¢ per kWh. This 0.4430¢ per kWh is 0.0808¢ per kWh lower than the Commission’s approved base of 0.5238¢. The Company contends that, by virtue of Order No. 25880, Idaho Power is authorized to adjust rates by 90% of the -0.0808¢ per kWh difference, or a -0.0727¢ per kWh.

 Idaho Power states that the true-up component of the PCA is a -0.1416¢ per kWh. The difference between the projected power cost and the base power cost (-0.0727) and the true-up (-0.1416) combine to produce a PCA for the period May 16, 1999 through May 15, 2000, of -0.2143¢ per kWh. Idaho Power concludes that the change in the PCA to -0.2143¢ per kWh from the existing 0.1598¢ per kWh currently in effect, results in a decrease to existing rates of -0.3741¢ per kWh. Idaho Power requests that the tariff filing implementing the PCA rate of -0.2143¢ per kWh becomes effective May 16, 1999.

 On April 21, 1999, the Commission issued a Notice of Modified Procedure soliciting comments in response to the Company’s Application. Comments were submitted by the Commis­sion Staff, the Industrial Customers of Idaho Power (ICIP) and the FMC Corporation. Idaho Power filed a response to those comments.

### Commission Staff

 Staff notes that a significant change in the true-up methodology was implemented starting with the month of January 1999. A new accounting standard, EITF 98-10, was implemented. The Company’s implementation of EITF 98-10 results in a separation on the books of the Company between energy sales and purchases made for operating purposes and other energy sales and purchases made for non-operating purposes (also referred to as “speculative” trading). Operating purposes include sales from system resources, system load balancing, system reliability transactions and hedging for system purposes. Non-operating purposes encompass all non-system transactions. In the current case, Staff notes that Idaho Power intends to include system operating transactions in the PCA and to exclude non-operating transactions from PCA treatment.

 Staff states that the lack of a workable definition applied at the time of the transaction caused the inability to make the separation in last year’s PCA true-up and led to the capture within the mechanism of operating and non-operating transactions. It is Staff’s position that the risks associated with non-operating transactions should not be passed on to Idaho Power’s customers. The implementation of EITF 98-10 has the potential to provide the separation that Staff desires. Consequently, for the purposes of this case, Staff is willing to accept the separations proposed by the Company for January, February and March 1999. Staff intends to review the effects of the standards on future PCA calculations again during 1999 because the procedure should be maturer and there will be more data to review. Due to the potential impact on the PCA of the classification of energy transactions as operating or non-operating, Idaho Power’s classifications and procedures should be reviewed in every PCA case, Staff contends.

 With respect to the actual PCA calculations made by Idaho Power in its filing, Staff notes that it has audited the Company’s actual results and found that all items were correct as presented. Staff notes that changes in surplus sales and purchases due to water conditions are not easily distinguishable from changes caused by marketing. For the first nine months of the PCA, these revenues and costs are captured in the PCA and the profits and losses are shared with customers. With the implementation of EITF 98-10, the months of January, February and March 1999 do not have the non-operating power marketing transactions included in the PCA. With the limited number of months and the recent implementation of EITF 98-10, Staff states that it is unable to reach any firm conclusions about future effects of removing the non-operating power marketing transactions from the PCA. Staff states that the surplus sales and purchases for January, February and March 1999 appear reasonable and Staff accepts these amounts as filed. Before the next PCA is filed, Staff states that it will perform a more extensive audit of the non-operating power marketing transactions and electricity sales and purchases from energy trading transactions.

 In summary, Staff states that it has reviewed the Company’s filing and believes the methods, representations and calculations contained therein are correct and in compliance with Commission Orders as they relate to the PCA. Staff recommends approval of the revised tariffs filed as part of the Company’s Application in this case.

### ICIP

 The ICIP argues that there are no rules, regulations or established Commission precedent to ensure that there is a clear delineation between Idaho Power’s activities conducted on behalf of its shareholders as opposed to those conducted on behalf of its retail customers.

 The ICIP contends that in all prior PCA proceedings, ratepayers were assured of receiving proper credits for non-operating sales made by the Company since all such sales were accounted for in the PCA. The revenues from such sales have been removed from this year’s PCA, however. The ICIP contends that the impact of Idaho Power’s calculations in this case is that the amount of profit associated with these speculative contracts will go entirely to share­holders. The ICIP is concerned that Idaho Power’s management has every incentive to maximize the amount of sales removed from the PCA while minimizing the amount of expenses removed. The ICIP argues that very definite rules and regulations must be put into place for the protection of both ratepayers and shareholders regarding sales and revenue definitions as well as cost and expense allocations. The ICIP notes that Idaho Power has not indicated in this filing whether it is using any generation or transmission facilities, personnel, general plant or other resources paid for by the ratepayers in conducting these transactions. The ICIP believes that the issues it raises are complex and far reaching and must be examined outside of the short time frame necessary for a PCA filing. The ICIP requests that the Commission approve Idaho Power’s PCA rate change as filed but schedule a hearing for a full and thorough examination and resolution of the issues it raises.

### FMC

 FMC does not challenge Idaho Power’s calculation of the 1999 PCA rate. Nonethe­less, FMC urges the Commission to open a new docket for the purpose of investigating whether new rules or regulations are necessary to govern Idaho Power’s energy trading activities.

 FMC notes that in recent years, changes have occurred in the electric industry, most notably the transition of the wholesale power supply market from a regulated endeavor to a largely unregulated competitive market. Some states have deregulated the electric markets completely. These developments, FMC contends, have created unprecedented marketing and trading opportunities for energy suppliers and marketers. The economic impact of Idaho Power’s trading activity in the wholesale market is significant, FMC contends. In 1996, Idaho Power’s revenues from off-system sales were approximately 20% as large as its retail sales revenues. By 1998, off-system sales revenues were 120% of total retail sales revenue.

 FMC states that it does not object to Idaho Power’s speculative trading and concurs with the Company’s assertions that the profits or losses from those endeavors should remain with the Company’s shareholders. At the same time, FMC argues that ratepayers are entitled to assurances that costs are properly allocated to the Company’s competitive activities and that ratepayers are compensated for any use of utility resources to support the speculative trading. FMC urges the Commission to open a docket to determine how Idaho Power’s competitive market activities are to be separated from its regulated utility business and to promulgate regulations as necessary.

### Idaho Power Response

 Idaho Power believes that Staff’s comments pertaining to EITF 98-10 adequately address the concerns raised by the ICIP and FMC and demonstrate that there is a standard of classification of transactions that will adequately protect ratepayers. The Company will classify its transactions as operating or non-operating based upon that standard. The result, Idaho Power contends, will be to ensure that the Company, its customers and the Commission, that the PCA methodology is being implemented as intended.

 Idaho Power notes that expenses that are related to energy trading contracts that are recorded in Account 421 are expenses that are not captured in any of the Company’s PCA computations. There is no effect, Idaho Power asserts, on the Company’s revenues and expenses for the purpose of calculating the Company’s annual PCA rate adjustment.

 Moreover, pursuant to EITF 98-10, only the operating transactions will flow through the PCA, and not speculative transactions. Thus, Idaho Power believes that the Company, its customers and the Commission already have a standard in place in the event of a dispute as to how a particular transaction should be classified. Idaho Power concludes that it is unnecessary to conduct a hearing as recommended by FMC and the ICIP given the existence of the safeguards mentioned above.

**FINDINGS**

 We hereby approve Idaho Power’s 1999 PCA filing as proposed by Idaho Power in its Application and set forth in the accompanying tariffs. We rely upon Staff’s assurances that the Company’s calculations were accurately made and note that no party opposed those calculations or any other numerical aspect of the Company’s 1999 filing.

 With regard to the concerns expressed by FMC and the ICIP relating to Idaho Power’s speculative trading, we agree that adequate safeguards must be in place to ensure that the Company’s ratepayers are protected from the risks associated with such activities. We believe that it is premature to conduct a formal hearing relating to this issue but agree that further consideration of this issue is warranted. We direct the Commission Staff to coordinate with Idaho Power, FMC, the ICIP and all other interested persons to determine, informally, how best to address the issue. Those parties might consider conducting a workshop. If necessary, any or all of them are free to petition this Commission to initiate a formal case. Regardless, we expect that some written work product will ultimately emanate from the efforts of the parties containing an analysis of the issue and a recommendation regarding what action, if any, is needed by this Commission.

**O R D E R**

 IT IS HEREBY ORDERED that Idaho Power’s 1999 PCA, set forth in the proposed tariffs, is approved effective May 16, 1999.

 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-99-3 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-99-3. 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 1999.

 DENNIS S. HANSEN, PRESIDENT

 MARSHA H. SMITH, COMMISSIONER

 PAUL KJELLANDER, COMMISSIONER

Samantha Lawlis

Assistant Commission Secretary

vld/O:IPC-E-99-3\_bp.doc