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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF PACIFICORP DBA	)	
ROCKY MOUNTAIN POWER'S APPLICATION	)	CASE NO. PAC-E-07-1
FOR APPROVAL OF REDUCTIONS IN	)	
BONNEVILLE POWER ADMINISTRATION	)	
REGIONAL EXCHANGE CREDITS	)	COMMENTS OF THE
	)	COMMISSION STAFF
	)	
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The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Cecelia A. Gassner, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure in Order No. 30222 issued on January 18, 2007, submits the following comments.

### BACKGROUND

On January 4, 2007, PacifiCorp dba Rocky Mountain Power (RMP or "Company") filed an Application with the Commission for approval of a revised Electric Service Schedule No. 34, which would reflect a reduction in Bonneville Power Administration (BPA) regional exchange credits. This Commission has jurisdiction over such request pursuant to *Idaho Code* §§ 61-301, 61-307, 61-622 and 61-623.

According to the Application, RMP participates in the Residential Exchange Program (REP) administered by the BPA. As a regional utility, Rocky Mountain Power is entitled to participate in the REP, which extends the benefits of low-cost Federal power to residential and small farm consumers served by investor-owned utilities in the region. The benefits provided by BPA under the REP Settlement Agreement (Agreement) with RMP are to be passed through and shared by the residential and small farm customers of RMP. The Agreement between BPA and RMP settles the parties' rights and obligations for the REP provided for by the Northwest Regional Power Act. As required by the Agreement, RMP maintains accounts to monitor the differences in the program credits provided to the Company's customers and the payments received from BPA. The Company states that at the end of the last Agreement period, October 2006, its Idaho balancing account showed a surplus of \$7.2 million; that is, over a five-year period RMP paid out \$7.2 million less in benefits to its Idaho residential and small farm customers than it had received from the BPA.

RMP has completed negotiations with BPA for a new five-year Agreement that includes the calculation of REP credits effective October 1, 2006 through September 30, 2011. Through these negotiations, the REP benefits passed on to RMP customers are 40% less than benefits received under the parties' prior five-year Agreement. The REP benefits the Company is proposing in Schedule 34 credit reflect the change in the net credit received from BPA to pass on to RMP customers. Further, RMP proposes to apply \$1 million from the existing Idaho balancing account toward the change in the 2007 BPA credit to help moderate the reduction.

The Company also proposes that certain long-term care facilities served by RMP be eligible to receive REP benefits. Facilities where the average patient stay is longer than 30 days, and where full medical care (similar to hospitals or medical clinics) is not provided would be eligible for the REP.

#### **STAFF ANALYSIS**

RMP is requesting Commission approval to reduce the allocation of credits on Schedule 34, Residential and Farm Kilowatt-Hour Credit, to qualifying customers under the REP. The reduction in BPA credits proposed by RMP in this case reflects a reduction of payments received by RMP from BPA for the 2006-2011 Agreement. For the first five years of the Agreement, RMP received approximately \$35 million annually from BPA to be passed through to qualified

residential and small farm customers. For the term of the 2006-2011 the Agreement amount passed through to qualified customers of RMP decreased to approximately \$21 million annually.

In addition to specifying the credit amounts, the Agreements required RMP to establish a balancing account to track the differences in the program credits provided to the Company's customers and the monetary payments received from BPA. As of September 2004 the Idaho balancing account showed a deficit of \$6.8 million because RMP had paid out \$6.8 million more in benefits to Idaho residential and small farm customers than it had received from BPA. In Case No. PAC-E-04-06, RMP proposed to reduce the BPA credit by \$6.8 million to achieve the targeted zero balance in the Idaho balancing account by September 30, 2006. The Commission approved the reduction of BPA credits in Order No. 29697. In that case, Staff verified that the Company had paid \$6.8 million more in credits to customers than was received by RMP from BPA. Staff stated that the balance in the Idaho account was highly dependent upon actual energy consumption by customers. Staff also recognized the potential for creating a surplus in the balancing account over the remaining term of the Agreement. Staff further noted that any resulting surplus could be applied to mitigate both planned and unplanned future reductions in BPA REP credits. As of October 2006, the beginning of the new 2006-2011 Agreement, a surplus of approximately \$7.2 million existed in the Idaho balancing account.

The Company proposes to reduce the amount in the balancing account by applying \$1 million of the existing surplus annually toward the proposed credit payments. The Company believes this will moderate the price change in 2007 and allow the balance to remain positive for subsequent years. The Company's analysis, based on normalized annual energy consumption levels, demonstrated that the surplus in the Idaho balancing account would be reduced from \$7.2 million as of September 2006 to about \$3 million at the end of 2011.

Consequently, the Company is proposing an overall reduction in REP credits to reflect the decrease in RMP benefits received from BPA and reduction of the surplus in the Idaho balancing account. Therefore, proposed credits will decrease from \$0.019216 to \$0.016757 per kilowatt-hour for non-irrigation customers under Schedule Nos. 1, 6A, 7A, 23A, 35A, 36, 19 with 6A, 19 with 23A, and 19 with 35A. As proposed, credits to irrigation customers under Schedule 10 would be reduced from \$0.031546 to \$0.026415 per kilowatt-hour.

Staff notes however, that the determination of the exact annual payout of credits to customers is not a precise science because the credits passed through to customers are a function of actual energy consumed. Factors such as weather conditions can contribute to a high degree

of variance in the payment of the BPA credits due to changes in energy consumed. For example, the difference in energy consumption between 2004 and 2005 was nearly 53 million kWh, while the difference in energy consumption between 2005 and 2006 was about 121 million kWh. The balancing account allows the Company to more effectively manage the volatility associated with consumption levels.

Staff also notes that RMP assumed no customer growth or load growth in its analysis. Staff believes it is reasonable to assume some growth in RMP's Idaho service territory; therefore Staff applied historical and forecasted growth rates to the Company's expected payout of BPA benefits for non-irrigation customers. Staff did not escalate loads or number of customers for the irrigation class because significant changes are not anticipated. Staff used rates for customer growth and load growth based on the Company's 2004 Integrated Resource Plan. Using a growth rate of 1%, Staff's analysis shows the surplus in the Idaho balancing account will likely be reduced to just over \$1 million at the expiration of the Agreement in 2011 at normalized consumption levels.

Staff believes that the REP rates proposed by the Company for qualified non-irrigation and irrigation customers are reasonable. Staff anticipates that the surplus existing in the Idaho balancing account will be appropriately reduced, approaching zero, over the term of the Agreement. Staff further believes that an attempt to accelerate reduction in the surplus balance could actually cause balancing account deficits requiring offsetting credit reductions. Should the balance grow larger during the five-year period or fail to decline as quickly as anticipated, the Company should recommend modification of the REP to better assure that all appropriate benefits are received by customers in a timely manner.

The second matter Staff reviewed is the inclusion of certain long-term care facilities for REP credits. According to BPA's Customer Load Eligibility Guidelines, the loads associated with nursing homes are eligible to receive the REP credit. Long-term care facilities such as nursing homes are eligible for REP credits when the average length of stay is 30 days or longer and the facility does not provide full medical care similar to the medical facilities, equipment, and staff normally provided by hospitals, clinics, or similar institutions. The loads associated with hospitals are ineligible to receive REP credits.


The Company has identified 17 long-term facilities that qualify for REP credits. The overall impact of including these facilities in the allocation of REP benefits to all other


customers is minimal. Staff recommends the Company include pass through of REP benefits to qualifying long-term facilities in accordance with BPA's Customer Load Eligibility Guidelines.

Overall, RMP's proposal will reduce benefits to the Company's customers in Idaho. Non-irrigation customers will experience a credit decrease of approximately 13% per kWh, and irrigation customers will see a credit decrease of about 16% per kWh. However, Staff believes the Company's proposed rates for allocating REP benefits are reasonable and will reduce the surplus in the Idaho balancing account to a reasonable level by the end of the Agreement while lessening the potential for balancing account deficits. Additionally, Staff believes it is appropriate to include certain long-term facilities that qualify under BPA's Customer Load Eligibility Guidelines to receive REP credit.

#### **STAFF RECOMMENDATION**

1. Staff recommends the Commission approve the reduction in BPA credits provided to qualifying customers of Rocky Mountain Power through the 2007-2011 Residential Exchange Program Agreement as proposed.
2. Staff recommends the Commission direct the Company to provide the Commission with monthly payments and Idaho account balances on an annual basis.
3. Staff recommends the Commission approve the Company's request to include qualifying long-term care facilities in the allocation of REP benefits.

Respectfully submitted this  day of February 2007.

  
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Cecelia A. Gassner  
Deputy Attorney General

Technical Staff: Michael Darrington

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8<sup>TH</sup> DAY OF FEBRUARY 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-07-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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