

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF PACIFICORP DBA ROCKY MOUNTAIN)	CASE NO. PAC-E-10-01
POWER FOR AUTHORITY TO)	
IMPLEMENT POWER COST ADJUSTMENT)	
RATES FOR ELECTRIC SERVICE FROM)	
APRIL 1, 2010 THROUGH MARCH 31, 2011)	ORDER NO. 31033
THROUGH THE ENERGY COST)	
ADJUSTMENT MECHANISM)	

APPLICATION

On February 1, 2010, PacifiCorp dba Rocky Mountain Power (PacifiCorp; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to implement a power cost adjustment to rates for all customer classes excluding tariff contract customers (Monsanto Company and Agrium, Inc.).¹ The proposed power cost adjustment is calculated pursuant to an Energy Cost Adjustment Mechanism (ECAM) approved by the Commission on September 29, 2009 in Case No. PAC-E-08-08, Order No. 30904. The energy cost adjustment is calculated to collect or credit the accumulated difference between total Company base net power costs (Base NPC) collected from Idaho customers through rates and total Company actual net power costs (Actual NPC) incurred to serve customers in Idaho calculated on a cents-per-kilowatt-hour basis. The initial deferral period was July 1, 2009 through November 30, 2009. The Company is proposing to recover approximately \$2.2 million in total deferred net power costs. The energy cost adjustment is set forth in a new electric service Schedule No. 94. The proposed effective date is April 1, 2010. The Commission in this Order authorizes recovery of a calculated ECAM deferred balance of \$2,013,140.

The ECAM is designed to recover the sum of all components of net power costs as traditionally defined in the Company's general rate cases and modeled in its production dispatch model GRID. The mechanism addresses only power cost expenses and does not include any costs associated with fixed-cost recovery, i.e., capital investment in rate base. Specifically, base

¹ Tariff contract loads (Monsanto and Agrium) are not subject to any ECAM surcharges/credits until January 1, 2011. Reference Case No. PAC-E-07-05, Order No. 30482.

and actual NPC will include costs typically booked to the following Federal Energy Regulatory Commission (FERC) accounts:

Account 447 – Sales for resale, excluding on-system wholesale sales and other revenues that are not modeled in GRID.

Account 501 – Fuel, steam generation, excluding fuel handling, start-up fuel/gas,² diesel fuel, residual disposal and other costs that are not modeled in GRID.

Account 503 – Steam from other sources.

Account 547 – Fuel, other generation.

Account 555 – Purchased power, excluding BPA residential exchange credit pass-through, if applicable.

Account 565 – Transmission of electricity by others (wheeling).

In addition to the comparison of actual NPC to base NPC, the ECAM includes three additional components: The load growth adjustment rate (LGAR) revenues, a credit for SO₂ allowance sales, and a renewable resource adder. The ECAM also includes a symmetrical sharing band of 90% (customers)/10% (Company) that shares the NPC differential between actual NPC and base NPC, SO₂ sales and LGAR revenues between the customers and the Company.

Pursuant to the ECAM, a renewable resources adder recognizes that the Company has made significant investments in renewable generation projects that are not yet being recovered in Idaho rates, even though these projects provide significant benefits to customers. Specifically, the adjustment recognizes that actual NPC were reduced by power generated from these renewable generation projects. Pursuant to Commission Order No. 30904, the Commission approved a renewable resource adjustment of \$55 per megawatt-hour (MWh) multiplied by the actual MWh output generated by the renewable resources that were not included in rate base in Case No. PAC-E-08-07.

The components making up the deferred ECAM balance set forth in the Application are reflected in the following table:

² Start-up fuel is accounted for separately from the primary fuel for steam-powered generation plants. Start-up costs are not accounted for separately for natural gas plants, and therefore all fuel for natural gas plants is included in the determination of both base NPC and actual NPC.

NPC Differential for Deferral	\$ 121,504
LGAR	1,499,793
SO2	<u>(120,562)</u>
Total	\$1,500,735
	<u>90%</u>
Customer Responsibility	\$1,350,662
Renewable Resource Adder	811,412
Interest	<u>8,022</u>
Total Company Recovery	\$2,170,096

The Schedule 94 energy cost adjustment proposed by the Company will have the following rate impacts:

Residential Customers – an increase of 1.29%, i.e., approximately \$0.91 per month for the average residential home using 850 kWh per month.

Irrigation Customers (Schedule 10): 1.55% increase

General Service

Schedule 23/23A: 1.34% increase

Schedule 6/6A/8/35: 1.70% increase

Schedule 9: 2.13% increase

Schedule 19: 1.57% increase

Public Street Lighting

Schedules 7/7A, 11, 12: 0.46% increase

COMMENTS

On February 12, 2010, the Commission issued a Notice of Application and Modified Procedure in Case No. PAC-E-10-01. The deadline for filing written comments was March 10, 2010. Comments were filed by Commission Staff and two customers, one located in Ammon, the other in Firth. Reply comments were filed by the Company on March 17, 2010.

Customer Comments

The Firth customer questions the high price of natural gas used by the Company to power its plants and queries whether an affiliate relationship might exist between the seller and buyer of the gas.

The Ammon customer (husband and wife) are on social security (age 83), have no other income and state that they cannot afford an increase in rates.

Staff Comments

Staff suggests changes to the Company's Application proposal and recommends a reduction in the Idaho ECAM deferral balance from \$2,170,096 to \$1,978,865 for the July 1, 2009 – November 30, 2009 deferral period.

ECAM Deferral

Staff notes that this is the first ECAM filing made by the Company subsequent to approval of the mechanism in Commission Order No. 30904. As a result, the ECAM filing in this case differs in several respects from Company filings that will be made in subsequent years:

- (1) This filing includes adjustments for Net Power Cost Differential, Load Growth Adjustment, and SO2 Sales for the 5-month period of July 1, 2009 through November 30, 2009; future filings will be for the 12-month period of December 1 through November 30 of the application year.
- (2) The Renewable Resource Adder will be included in the ECAM only until the costs and benefits can be included in base rates in the Company's next general rate case. A rate case will eliminate the need for this special adjustment.
- (3) In future years there will be a "true-up" between the deferral balance and amounts actually recovered; any over- or under-recovery that occurs as a result of this ECAM filing will result in an adjustment to future ECAMs.

Staff reviewed the Company's ECAM filing and audited the Company's actual results as they pertain to the ECAM. Staff makes the following recommended changes to the Company's proposal.

Net Power Cost Differential – The Net Power Cost differential, Staff states, is the driving force behind the creation and need for a power cost adjustment mechanism. Normally this differential is the single largest cost component of the mechanism. In this case it is a small portion of the total deferral. Two primary reasons for this are (1) the review period is only five months instead of twelve months and (2) the actual system load was lower than the base load assumed in the Company's last general rate case. The lower system load, Staff speculates, is probably associated with the current economic downturn.

Staff reviewed transaction activity in the FERC accounts of the Company used to record net power costs. Staff's transaction evaluation and trend analysis revealed nothing unreasonable or out-of-trend with previous activity. The Idaho share of net power costs

increased by \$121,504; the Idaho customers' share of the increased cost is \$109,354 after 90/10 sharing. This amount represents 5.43% of the Company's proposed total ECAM deferral.

Load Growth Adjustment – The Load Growth Adjustment Rate (LGAR) is the largest component of this ECAM deferral. During the five-month review period actual Idaho loads were down 85,810 MWh or 7.95% from the same 2007 normalized five-month period used to calculate Idaho base load. At an approved adjustment rate of \$17.48/MWh, this results in an adjustment of \$1,499,793. The Idaho customer share is \$1,349,814 after 90/10 sharing. These are the same results presented by the Company.

The theory behind the LGAR, Staff contends, is that the Company should not be allowed to collect growth-related power supply costs through an ECAM surcharge and then also collect base revenue from that new load to cover the same power supply costs. The mechanism is symmetrical and the same theory applies when loads decline. The Company should not be required to provide a credit to customers when power supply costs decline due to declining load and also suffer the loss of base revenue from the lost load. In this case, power supply costs increased slightly at the same time load decreased significantly. Rather than offsetting lost revenue that the Company already gave back in an ECAM credit, the Load Growth Adjustment simply reimbursed the Company for lost revenue due to lost load. This, Staff notes, is very similar to decoupling or the Fixed Cost Adjustment Mechanism (FCA) in place for Idaho Power Company.

While Staff does not propose to remove the Load Growth Adjustment in this case, Staff notes that decoupling has not been approved in Idaho for PacifiCorp. Staff also notes that all three Idaho utilities have ECAM/PCAs in place with similar provisions. Staff believes that further investigation is necessary in conjunction with Company filings for all three mechanisms to determine if a Load Growth Adjustment is appropriate when the adjustment exceeds the magnitude of the ECAM/PCA surcharge/credit or is otherwise reasonable when loads decline.

SO2 Credits – The ECAM approved by the Commission requires that revenues from the sale of SO2 credits be shared between the Company and its customers (90% customers/10% Company). This requirement applied to all SO2 sales beginning July 2009. The Company calculated the Idaho portion of the SO2 credit sale proceeds by multiplying total sales by the Idaho energy allocation factor of 6.5865%. The Idaho portion of the SO2 credit sale proceeds was then further reduced to an Idaho tariff customer portion based on the percent of the Idaho

tariff load to total Idaho load in each month. (Shu Direct Testimony p. 5, lines 18-23 through p. 6, lines 1-5 and Company Exhibit 1, lines 13-17). The Company calculated the Idaho tariff customer portion to be \$108,506 after the 90/10 sharing.

Staff agrees that SO₂ sales proceeds should be allocated to Idaho based on the energy allocation factor. However, Staff believes further adjustment by the percentage representing the tariff customer portion of total Idaho Load is not consistent with prior rate case treatment of SO₂ credit sale proceeds to tariff customers. Ratemaking treatment of SO₂ credit sale proceeds prior to the ECAM resulted in 100% of the sale proceeds reducing the approved rate increase whether contract customers were affected or not. Staff believes the 10% sharing represents the appropriate Company share as the sale of SO₂ credits are moved from base rates to the ECAM. This final Company-proposed reduction in Idaho SO₂ proceeds, which have already been reduced to 90% of the originally allocated amount, results in an even smaller allocation to Idaho tariffed customers and an even larger share retained by the Company. Staff believes that this further reduction in Idaho SO₂ proceeds should not occur. Therefore, Staff recommends that the Commission reject the Company's proposal to further reduce Idaho SO₂ credits. Eliminating the reduction results in a net SO₂ credit of \$142,609 after 90/10 sharing, increasing the Idaho tariff customer credit by \$34,104.

Renewable Resource Adder – The Renewable Resource Adder, Staff notes, allows the ECAM to include a cost for renewable resources that have come on-line since base power costs were set in the Company's last rate case, Case No. PAC-E-08-07. The costs are included at \$55/MWh. The costs of these resources are not included in base rates but generation from the resources reduces actual Net Power Costs. In the Company's next general rate case the costs and benefits of these resources will be included in base rates and the need for this special adjustment will be eliminated. The Idaho customer share of this cost is \$811,412. These are the same results presented by the Company.

Goose Creek Transmission Sale Credit – Commission Order No. 30904 required the Company to include an Idaho customer benefit for the sale of Goose Creek Transmission assets in its ECAM calculation. The amount that was to be included as an Idaho customer benefit was established as \$156,434. The Company inadvertently left this credit out of its Application filing. Shortly after the filing was made the Company identified the error and contacted Staff. The credit is included in Staff's calculations.

Interest – As required by Commission Order No. 30904, the Company included interest on monthly deferral balances at the Commission-approved customer deposit interest rate. This rate is 2% for 2009. The Company calculated the interest amount to be \$8,022. Due to the addition of the Goose Creek Sale Credit and the adjustment for SO2 sales, Staff calculates a slightly different interest amount than the Company calculated. Staff calculates interest of \$7,329 resulting in an adjustment of \$693.

Incorporating the Staff adjustments discussed above, Staff calculates the ECAM components and Total Idaho Deferral to be:

NPC Differential	\$ 121,504
Load Growth Adjustment	1,499,793
SO2 Credit	<u>(158,455)</u>
Sub-Total	\$1,462,842
	90%
Customer Responsibility	\$1,316,558
Renewable Resource Adder	811,412
Goose Creek Sale Credit	<u>(156,434)</u>
Interest	<u>7,329</u>
Total Idaho Deferral	\$1,978,865

The Staff adjustments reduce the deferral amount from the Company calculation of \$2,170,096 to \$1,978,865. The sum of all Staff adjustments reduces the ECAM deferral by \$191,231.

ECAM Rates

The methodology for calculating ECAM rates is generally defined in the Settlement Stipulation accepted by the Commission in Order No. 30904. The details of the rate design were accepted by participating parties in discussions after Order No. 30904 was issued. The rates were to be energy rates (¢/kWh) and they were to be differentiated based on delivery losses. In Company Exhibit No. 3, the Company proposes three different energy rates that vary by delivery voltage. In general, the lower the delivery voltage the higher the losses associated with serving the load. Higher losses translate into higher ECAM rates; lower losses, due to higher delivery voltages, translate into lower ECAM rates. Staff's calculation of the three loss-differentiated rates is as follows:

- Secondary Distribution Rate: .00098 \$/kWh (0.098¢/kWh).

- Primary Distribution Rate: 0.00091 \$/kWh (0.091¢/kWh).
- Transmission Rate: 0.00089 \$/kWh (0.089¢/kWh).

The Staff-proposed ECAM rate adjustment results in an average rate increase to tariff customers of 1.34%.

Staff notes that the application of these three rates to the estimated metered energy sales produces a revenue amount of approximately \$1,981,000, which is approximately \$2,000 above the deferral amount. This occurs because the rates are rounded to five decimal places like all Rocky Mountain Power energy rates. This is not a problem because this difference, or any other difference, between the deferral amount and amounts actually recovered is carried back into the following year's deferral balance as a true-up.

Staff Recommendation

Commission Staff recommends that the Commission accept an Idaho ECAM deferral balance of \$1,978,865 for the July 1, 2009 through November 30, 2009 deferral period. This number includes a Goose Creek Transmission Sale credit, an adjustment to the SO2 sale credit, and an adjustment to the Company's interest calculation. Staff recommends that the Commission approve the Staff-calculated loss differentiated energy rates set out above for an effective date of April 1, 2010.

As previously discussed above, Staff also recommends that the application and implementation of the Load Growth Adjustment be further evaluated either in the Company's next general rate case or in a separate case before the next annual ECAM filing.

PacifiCorp Reply Comments

Staff's proposal reduced by \$156,434 the amount requested by the Company for Idaho's allocation of the Goose Creek sale and by an additional \$34,104 to adjust the allocation of SO2 sales. Based on these two adjustments and associated interest, Staff recommended an ECAM deferral balance of \$1,978,865. PacifiCorp addressed Staff's proposed adjustments as follows:

Goose Creek

The Company agrees that the ECAM deferred balance of \$2,170,096 should be reduced by \$156,434 for the Goose Creek sale and by an additional \$522 of associated interest, resulting in a new ECAM balance of \$2,013,140.

SO2

PacifiCorp opposes Staff's SO2 adjustment because (i) in Order No. 30482 from Case No. PAC-E-07-05, the Commission stated: "the cost of service methodology proposed by the Company in this proceeding will remain as the accepted methodology though the maximum duration of the rate plans for Agrium and Monsanto, which expire December 31, 2010." Stipulation ¶ 11, (ii) the Order further states "the Company agrees that in any rate filing during the terms of such rate plan that it will not seek to recover any revenue shortfalls related to Agrium and Monsanto from other Idaho customers when compared to cost of service studies from those filings." Stipulation ¶ 10.

The Company contends it has complied with Commission Order No. 30482 by excluding all Agrium and Monsanto (tariff contract customers) impacts from the ECAM deferral calculation, including the NPC differential, load growth adjustment, SO2 credit, and renewable resource adder. Staff acknowledged, the Company states, that the SO2 sales should be allocated to Idaho using Idaho's share of the system energy factor. However, Staff states also that "further adjustment by the percentage representing the tariff customer portion of total Idaho load is not consistent with prior rate case treatment." The Company disagrees with this statement. Neither the impacts associated with the components of the ECAM nor the revenue credits related to the SO2 sales, the Company contends, are being included for Agrium and Monsanto.

Similar to the treatment in a rate case, jurisdictional allocation is first addressed, followed by customer class allocations. Customer class, or cost-of-service, allocation is based on the intra-jurisdiction usage relationship between customer classes within the state. Thus, the Company contends, it is necessary to first allocate Idaho's share of the total Company SO2 sales and then adjust or allocate total Idaho SO2 sales to the tariff customers, removing Monsanto's and Agrium's share of the sales. This is consistent with the way the Company excluded Agrium's and Monsanto's share of NPC differential \$/MWh (line 5 from Ms. Shu's Exhibit 1) by applying tariff customers load only to the NPC differential \$/MWh rate. Had the Company used total Idaho load to multiply the NPC differential \$/MWh rate, then:

1. The NPC differential would have been \$204,247 instead of \$121,504,
2. The load growth adjustment would have been \$3.4 million rather than \$1.5 million, and

3. The renewable resource adder would have been \$1.4 million rather than \$811,412.

In total, the Company states the ECAM deferral balance would have been \$4.5 million rather than \$2.0 million. However, the Company acknowledges that this is counter to Commission Order Nos. 30482 and 30904. Therefore, the Company has deferred and requested recovery only of the tariff customers' portion of the ECAM. The Company's position is that it is not appropriate to ignore the costs associated with the tariff contract customers while at the same time taking the SO₂ revenues as an offset to the ECAM deferral balance. Staff's adjustment to SO₂ sales, the Company contends, is counter to Commission Order Nos. 30482 and 30904 which both specify that Agrium's and Monsanto's revenue shortfalls and costs would not be sought from other customers or included in the ECAM until January 1, 2011.

PacifiCorp accordingly requests that the Commission accept the Idaho ECAM deferral balance of \$2,013,140, which represents the Company's original request of \$2,170,096 adjusted for the Goose Creek sale as agreed to by all parties to the ECAM Stipulation, Order No. 30904. The Company's position is that it is not appropriate to reduce the ECAM deferral balance by Agrium's and Monsanto's share of the SO₂ sales and recommends the Commission deny Staff's proposed SO₂ adjustment.

The Company recommends, based on an ECAM deferral balance of \$2,013,140, that the Commission approve the following loss-differentiated energy rates to be included in Schedule 94:

Secondary Distribution Rate	0.100¢/kWh
Primary Distribution Rate	0.093¢/kWh
Transmission Rate	0.091¢/kWh

The resultant average rate impacts for customers are as follows:

Residential Customers: An increase of 1.20%, i.e., approximately \$0.85 per month for the average residential home using 850 kWh per month.

Irrigation Customers (Schedule 10): An increase of 1.45%

General Service

Schedule 23/23A: 1.25% increase

Schedule 6/6A/8/35: 1.59% increase

Schedule 9: 1.98% increase

Schedule 19: 1.46% increase

Public Street Lighting
Schedules 7/7A, 11, 12: 0.43% increase

COMMISSION FINDINGS

The Commission has reviewed and considered the filings of record in Case No. PAC-E-10-01 including the Application and accompanying workpapers and supporting testimony, the comments and recommendations of Commission Staff and customers, and the reply comments and recommendations of the Company. We have also reviewed the Energy Cost Adjustment Mechanism (ECAM) we approved last year in Order No. 30904, Case No. PAC-E-08-08 and the rate case Stipulation we approved in Order No. 30482, Case No. PAC-E-07-05.

The Commission Staff in filed comments proposes two adjustments to the Company's Application, i.e., (1) SO₂ credits and (2) Goose Creek transmission sale credit. The Company in reply concedes the Goose Creek credit adjustment (noting it was an oversight not to include same) and contests Staff's proposed SO₂ credit adjustment. The Commission is informed that Staff concurs with the Company's reply argument regarding SO₂ credits. We are persuaded that the Company's SO₂ argument is correct. That being the case, we find that the Company and Staff are now in agreement as to the ECAM deferral balance, i.e., \$2,013,140, and the related Schedule 94 loss-differentiated energy rates, to wit:

Secondary Distribution Rate	0.100¢/kWh
Primary Distribution Rate	0.093¢/kWh
Transmission Rate	0.091¢/kWh

We find that PacifiCorp's Application correctly implements the ECAM methodology we approved. The Company's accounts have been audited. We find the \$2,013,140 deferral balance agreed to by the Staff and Company to be correct for the initial deferral period (July 1 to November 30, 2009), as are the related Schedule 94 loss-differentiated energy rates. We find it reasonable to approve the Schedule 94 energy cost adjustment for an effective date of April 1, 2010.

Our approval of an energy cost adjustment in this case is tempered by the following expressed concern and recommended course of action. In approving the ECAM last year, we authorized the Company to track annual deviations in power supply costs embedded in base rates

and to surcharge or credit customers the accumulated balance over the subsequent year. Power supply costs represent a large portion of the Company's total revenue requirement and are subject to a high degree of volatility largely outside of the Company's control. The mathematical symmetry of the ECAM seemed reasonable. Observing how the ECAM operates in practice, however, reveals an unintended consequence in periods of declining retail load. In such a situation, the ECAM, we find, appears to operate much the same as a decoupling mechanism reimbursing the Company for lost revenue for reductions in customer usage (sales). The Company's Application in this case is a striking example of this end result. Seventy-five percent of the ECAM deferral in this case is related to declining load. The Load Growth Adjustment Rate (LGAR) adds power supply costs to make up for the generation portion of lost sales. In deferral periods of load reduction such as occurred in the instant case, the ECAM looks less like a power cost adjustment and more like a vehicle to restore lost revenue due to decreases in customer usage. We find the result that is presented by use of an ECAM containing an LGAR during periods of declining load growth is a problem that may also occur in the Power Cost Adjustment (PCA) mechanisms of Idaho Power and Avista. Because the Company realized benefits differently than we anticipated, the Commission needs to further explore how the methodology operates in practice. We therefore direct Commission Staff to hold a workshop for the three utilities to discuss this phenomenon and report continued justification for use of an LGAR when loads decline.

For the ECAM to act as a decoupling mechanism was unintended. A decoupling mechanism breaks the link between customer usage (sales) and the utility's revenues. If the Company desires a decoupling mechanism it should request and justify one in a separate filing.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over PacifiCorp dba Rocky Mountain Power, an electric utility, and the issues raised in Case No. PAC-E-10-01 pursuant to the authority granted the Commission in Title 61, Idaho Code, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby approve implementation of a Schedule 94 Energy Cost Adjustment for an effective date April 1, 2010, to recover a deferral balance of

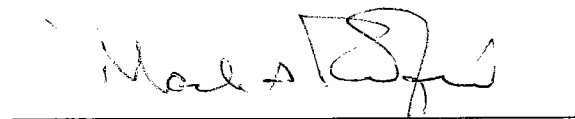
\$2,013,140 by means of a Secondary Distribution Rate of 0.100¢/kWh, a Primary Distribution Rate of 0.093¢/kWh, and a Transmission Rate of 0.091¢/kWh.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

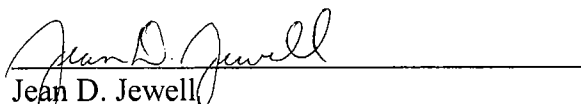
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of March 2010.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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