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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF PACIFICORP DBA ROCKY MOUNTAIN POWER'S APPLICATION TO MODIFY THE ENERGY COST ADJUSTMENT MECHANISM AND INCREASE RATES.	**CASE NO. PAC-E-15-09** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Modified Procedure and Notice of Schedule and Settlement Conference in Order No. 33339 issued on July 15, 2015, submits the following comments.

BACKGROUND

On May 27, 2015, PacifiCorp dba Rocky Mountain Power submitted an Application seeking a Commission Order authorizing the Company to: (l) increase rates by $10.2 million, or 3.9% on average, effective January 1, 2016, as summarized in the electric service schedules attached to the Company's Application; and (2) modify the Energy Cost Adjustment Mechanism ("ECAM"). Rocky Mountain requested that the Commission process its Application through Modified Procedure.

On June 18, 2015, the Commission issued a Notice of Application and Notice of Intervention Deadline and established July 2, 2015, as the deadline for interventions. Petitions to Intervene were filed by Monsanto Company ("Monsanto"), PacifiCorp Idaho Industrial Customers ("PIIC") and the Idaho Irrigation Pumpers Association, Inc. ("IIPA"). The Commission granted the Petitions. *See* Order Nos. 33321 and 33333.

On July 9, 2015, the Commission Staff ("Staff"), Rocky Mountain and the aforementioned Intervening Parties (collectively referred to as "the Parties") engaged in a teleconference call and agreed upon a schedule for written comments.

On August 11, 2015, the parties participated in a settlement conference to address and resolve issues associated with the Company's request. Settlement was subsequently reached by all parties on all issues and a Settlement Stipulation was filed with the Commission on October 16, 2015. The following Staff comments are filed in support of that settlement.

STAFF ANALYSIS

The proposed Settlement addresses a variety of power supply expense issues and how they are recovered by the Company through rates. It specifically provides a base rate increase of $10.2 million or 3.9% with a base rate case "stay out" until June 1, 2017, with rates effective no sooner than January 1, 2018. However, the Settlement does provide a potential second year base rate change on January 1, 2017 to modify normalized Net Power Cost (NPC) based on power supply costs actually incurred in 2015.

The Stipulation also specifies changes in ECAM methodology that include: (1) tracking with 100% recovery of annual amortization costs associated the Deer Creek Mine closure; (2) ECAM measurement on a dollar per megawatt-hour (Mwh) basis using load at meter rather than load at generation with an ECAM Deferral Period based on a calendar year; (3) tracking of actual Production Tax Credits (PTC) at 100%; and (4) removal of SO2 revenue and demand side management costs from ECAM tracking. Company proposed elimination of the Load Change Adjustment (LCAR) and ECAM sharing percentages were not accepted nor included in the Settlement Stipulation.

The expenses addressed in the Settlement are all part of Net Power Supply Expense (NPSE) subject to either ECAM recovery, base rate recovery or a combination of the two. The vast majority of the base rate increase proposed in this Settlement is due to shifting NPSE currently recovered through the ECAM to base rate recovery at 100%. As NPSE in base rates increase, customers will pay more costs upfront and fewer costs through the ECAM later.

Staff has fully reviewed the Company's Application, work papers, results of operations, Idaho ECAM filings and NPSE adjustment filings in other jurisdictions to establish a position in this case. Staff believes that the Settlement Stipulation represents a reasonable compromise of NPSE cost recovery issues resulting in limited customer impact and rate stability through January 1, 2018.

Base Rates

The Stipulation provides a base rate increase of approximately $10.2 million in revenue or 3.9% more than what existing rates at current loads will generate. The increase in NPSE[1] can be broken down into two sets of costs: (1) a $3.157 million increase in Net Power Cost (NPC) subject to 90/10 customer sharing; and (2) an increase of $7.023 million in NPSE not subject to sharing.

The $3.157 million NPC base rate increase is actually the net of several different expense changes, including: (1) a $2.88 million increase in general power supply expenses; (2) shifting $684,000 in Deer Creek Mine depreciation from base rate recovery to 100% ECAM recovery; and (3) an additional $965,000 NPC base rate increase in exchange for a two year rate case stay out. The actual customer impact of the $3.157 million NPC base rate change is approximately $384,000 per year or the 10% sharing that would have occurred had the $3.84 million ($2.88 million and $965,000) been recovered through the ECAM.

The $7.023 million base NPSE increase not subject to sharing includes: (1) a renewable energy credit (REC) reduction of approximately $6.5 million (this reduction is currently tracked through the ECAM at 100%); (2) a $215,000 base rate increase for a PTC decrease (not currently included in NPSE or tracked through the ECAM); and (3) an additional $289,000 increase in exchange for the 2-year stay-out.

With respect to changes in REC revenue, there is no customer impact from the NPSE base rate reduction in RECs because this reduction is currently tracked through the ECAM at

[1] For purposes of the ECAM and these Comments, Net Power Supply Expense (NPSE) is defined as all costs and revenues tracked through the ECAM. Net Power Costs (NPC) is a subset of NPSE that specifically include costs and revenues found in FERC accounts 447, 501, 503, 555, and 565.

100%. The Commission approved 100% ECAM treatment of REC revenue in Order No. 32196 and Staff agrees that base rate treatment is reasonable in this case.

The PTC base rate change of $215,000 reflects a reduction associated with generation at Company owned renewable facilities. Although this expense change is not currently tracked through the ECAM, Staff has verified that the PTC reduction has actually occurred on a regular basis and for the purposes of settlement can be reflected in base rates.

The final base rate increase of $289,000 in non-power supply expense is a compromise as a cost of the stay-out provision to January 1, 2018. This base rate increase does not otherwise track through the ECAM and is recoverable from customers at 100%.

The combined net customer impact of all base rate changes is approximately $889,000 per year or about 0.34% more than what customers would pay through current base rates and the ECAM. Staff believes that an Idaho NPC of $94.8 million including changes described above with metered sales of 3,483,480 MWh represent a reasonable base for the purpose of ECAM calculation.

ECAM

There are several changes to the ECAM that are supported by Staff and included in the Stipulation. The first change is ECAM tracking and 100% recovery of approximately $1.3 million in annual Deer Creek mine amortization expense. This provision removes $684,000 of mine depreciation expense currently included in base rate NPSE and combines it with an additional $617,000 in amortization expense to track through the ECAM until unrecovered Deer Creek Mine capital costs are fully amortized in 2020. Staff agrees that consolidation in the ECAM of the Deer Creek Mine amortization costs makes tracking cost recovery more efficient and allows the expense to be automatically discontinued in 2020 when unrecovered capital is fully amortized. The Commission previously approved full amortization of unrecovered Deer Creek mine capital costs in Order No. 33304 (PAC-E-14-10).

The second ECAM modification addressed in the Stipulation is removal of DSM expense and SO2 revenue tracking. SO2 revenue has become very small over time and does not change significantly from year to year. DSM cost recovery issues (system vs situs allocation) that led the Commission to order tracking through the ECAM have been resolved. In addition, program restructuring has significantly reduced year-to-year cost volatility. These changes will have no effect on base rates and will have minimal effect on future ECAM deferral balances. Consequently, Staff supports elimination of these items from the ECAM.

The third ECAM modification addressed in the Stipulation is inclusion of PTC changes in actual NPSE tracked at 100% in the ECAM deferral balance. Staff agrees that PTCs legitimately affect power supply expense from year to year as energy generated from Company owned renewable resources change. Analysis shows that while PTC volatility has historically been low, significant reductions are expected to occur beginning in about 2018 as credits associated with generation are eliminated. Staff therefore supports this ECAM change for the purposes of settlement and intends to review base rate PTC in the next general rate case to identify actual changes in PTC.

The final ECAM modification addressed in the Stipulation is a change in the way the ECAM deferral balances are measured. After January 1, 2016, the ECAM will be measured on a dollar per MWh basis using load at meter rather than the current load at generation. Moreover, the ECAM deferral period will be based on a calendar year from January 1 through December 31. The February 1st annual ECAM filing date will remain unchanged in 2016. Subsequent calendar year ECAM filings will be made by April 1 with a rate effective date of June 1. The Stipulation also specifies use of ECAM related costs embedded in base rates to reflect associated revenue actually collected from customers during the ECAM period. Lastly, the Stipulation specifies that the ECAM LCAR will be updated to reflect base load at meter corresponding to the period used to set base rates.

Staff supports all of these ECAM modifications. The new deferral calculation methodology eliminates the need for the "Base-rate Over-Collection Adjustments" that have been applied to the Company's proposed deferrals and approved by the Commission in the last two ECAM cases (Order No. 33008 in PAC-E-14-01; Order No. 33265 in PAC-E-15-01). When the adjustments approved by the Commission in the prior cases are applied to the Company's current deferral calculation methodology, it is equivalent to the ECAM methodology changes proposed in this Stipulation. The proposed changes effectively eliminate line-loss bias identified as a major source of inaccuracy in determining the over or under recovery of ECAM related cost embedded in base rates; thus ensuring that customers pay no more and no less than actual cost, minus sharing. The calendar year ECAM period better aligns ECAM expense deferral with Company calendar year results of operations.

Rate Spread and Stay out Provision

The Stipulation specifies that the base rate increase will be spread to each customer class through a uniform cents per kWh increase in all energy rate components. While the overall base revenue increase will be approximately 3.9%, the revenue impact on each customer class will vary due to the uniform increase of 0.292 cents/kWh applied to all energy used within the class. The table below shows the increase in revenue for each class and the corresponding percentage.

Customer Class	**Present Revenue**	**Proposed Revenue**	**Change ($)**	**Change (%)**
Total Residential (Sched. 1 & 36)	$70,109	$72,090	$1,981	2.8%
Large General Service (Sched. 6 & 6A)	$25,308	$26,283	$975	3.9%
Irrigation (Sched. 10)	$52,555	$54,316	$1,761	3.4%
General Service (Sched. 23 & 23A)	$17,742	$18,289	$547	3.1%
Special Contract 1	$82,747	$86,967	$4,220	5.1%
Special Contract 2	$5,950	$6,264	$314	5.3%
Total (All Classes)	**$263,315**	**$273,496**	**$10,181**	**3.9%**

(Revenue shown is in $1000)

As previously stated, the base rate increase is almost entirely due to moving NPSE subject to recovery from customers in the ECAM to recovery from customers in base rates. Of the $10.2 million increase, $3.84 million in NPC is subject to 90/10 customer sharing effectively limiting the customer's impact of NPC to $384,000. Of the remaining amount, $6.5 million of the base rate increase is for REC revenue reduction that is already tracked at 100% through the ECAM. While customers will see an increase in base rates on January 1, 2016, they will see an almost equal reduction in the ECAM in 2017. Given that the base rate increase primarily recovers variable energy costs that would otherwise be recovered through the ECAM on an equal cents per kWh basis, Staff believes it is reasonable to increase base rates on an equal cents per kWh basis.

Beyond the base rate increase proposed to take effect on January 1, 2016, the Stipulation provides for a review of actual 2015 power supply expenses and an additional base rate NPC adjustment effective January 1, 2017, if necessary. Again, any NPC paid by customers through base rates, will not be subject to recovery through the ECAM. It is also possible that review of 2015 power supply expenses could result in a decrease in base rate NPC. Regardless, Staff believes it is reasonable for the purposes of settlement in this case to update base rate NPC during the stay-out period.

The stay-out period specified in the Stipulation as January 1, 2016 to January 1, 2018, prohibits any additional base rate changes. The stay-out also prohibits new deferrals for later recovery of any expenses incurred during the period that have not already been approved by the Commission. Staff fully supports the stay out provision and believes it will result in lower rates than would otherwise occur and provide relative rate stability for the next two years.

CONCLUSION AND RECOMMENDATIONS

Staff agrees that the Stipulation, agreed to by all parties, represents a fair, just and reasonable compromise of the issues raised in this proceeding and that it is in the public interest. Staff recommends that the Commission approve the Stipulation, including all of its terms and conditions.

Respectfully submitted this 6th day of November 2015.

For: Karl T Klein

Neil Price
Deputy Attorney General

Technical Staff: Randy Lobb
Mike Louis
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF NOVEMBER 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-15-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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