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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

| | |
|--|----------------------|
| IN THE MATTER OF THE APPLICATION OF) | |
| PACIFICORP DBA ROCKY MOUNTAIN) | CASE NO. PAC-E-16-12 |
| POWER TO UPDATE BASE NET POWER) | |
| COSTS AND IMPLEMENT A RATE STABILITY) | |
| PLAN.) | COMMENTS OF THE |
|) | COMMISSION STAFF |
|) | |

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Camille Christen, Deputy Attorney General, and in response to the Notice of Modified Procedure issued in Order No. 33618 on October 4, 2016, in Case No. PAC-E-16-12, submits the following comments.

BACKGROUND

On September 1, 2016, PacifiCorp dba Rocky Mountain Power applied to the Commission for an Order authorizing the Company to adjust the base level of net power costs (NPC) in base rates and the NPC to be tracked in the Energy Cost Adjustment Mechanism (ECAM). The Company indicates that this request is consistent with the requirements of Commission Order No. 33440, in Case No. PAC-E-15-09. The Company also asks the Commission to approve a new level of base retail load and authorize the Company to adjust the Load Change Adjustment Rate (LCAR), Production Tax Credit (PTC) and Renewable Energy Credit (REC) rates.

The Company's Application, if approved, would *decrease* rates by an average of approximately 0.4 percent. The Company asks that the case be processed by Modified Procedure and that the Commission approve the new base NPC, new base retail load, and the new LCAR, PTC and REC rates. As an alternative to reducing rates, the Company proposes a Rate Stability Plan under which rates would remain unchanged and the Company would apply the incremental revenues that result from the reduction in base NPC to the depreciation deferral from the 2013 depreciation study. The Company indicates that it intends to engage parties in a discussion of the Plan. If the parties cannot reach agreement on the alternative Rate Stability Plan, the Company requests approval of the changes to the rates shown in the tariff revisions included in Attachment A to its Application to be effective January 1, 2017.

The Commission issued an Order providing Notice of Application, setting a deadline for interventions, and directing the parties to confer about a proposed schedule and report their proposal to the Commission. Order No. 33597. The Commission received and granted petitions for intervention from PacifiCorp Idaho Industrial Customers; Monsanto Company; and Idaho Irrigation Pumpers Association, Inc. Order Nos. 33599, 33600, and 33601.

STAFF REVIEW

Staff has thoroughly reviewed the Company's Application focusing on five different areas of the filing. First, Staff analyzed whether the Company's adjustment to NPC was reasonable and to further see if the filing was consistent with Commission Order No. 33440. Second, Staff reviewed the Company's methodology to ensure the new rates properly reflect the NPC adjustment. Third, Staff considered the Company's request to recalculate the LCAR, PTC, and REC rates based on the new Idaho load at meter. Fourth, Staff assessed the merits of the proposed Rate Stability Plan. Finally, Staff considered whether the Company had provided customer notice of its Application. Given this review, Staff concludes the following:

1. The Company's adjustment to net power cost is reasonable. Staff recommends the Commission accept the proposed NPC adjustment resulting in a 0.4 percent base rate decrease to be effective January 1, 2017.
2. The PTC and REC rates, for purposes of the ECAM, should not be changed. Furthermore, the LCAR should be reset to \$6.07 per MWh to reflect the revenue being recovered for LCAR-related costs embedded in base rates.

3. The Rate Stability Plan was not accepted by intervening customer groups and for this reason is not recommended for further consideration.
4. The Company failed to provide customer notification of the proposed rate change, which is a violation of Rule 125 of the Commission's Rules of Procedure.

Details of these findings are discussed in the sections below.

Net Power Cost Adjustment

The stipulation approved by the Commission in Order No. 33440 in Case No. PAC-E-15-09 requires the Company to make a filing updating base rates to reflect the NPC from the 2015 Results of Operation (ROO). According to the Company, NPC from the 2015 ROO was derived using weather normalized loads and 2016 pro forma adjustments to fuel costs, market prices for electricity, and signed contracts (Wilding Direct at 2). In order to determine if the proposed rate is reasonable, Staff (1) evaluated loads used to derive net power costs, (2) compared proposed system NPC to fuel cost and market prices, and (3) verified the calculation of the NPC base rate. Based on its analysis, Staff believes the NPC rate is reasonable.

To evaluate the loads used to derive NPC, Staff compared proposed system loads at generation to the loads used to derive NPC in the PAC-E-15-09 case and to actual loads during the 2015 time period.¹ Normalization of 2015 actual loads resulted in a slight increase of 0.5% which Staff believes is reasonable considering near normal conditions across PacifiCorp's entire system. This results in a proposed system load that is about 1.5% less than loads used to derive currently authorized NPC.

Staff analyzed the reasonableness of the Company's proposed NPC by analyzing the trends in average fuel prices and purchases and sales of electricity relative to the Company's 2014 ROO. In this comparison, coal generation cost increased while the cost of natural gas generation decreased reflecting overall commodity price trends. This correlates to changes in the Company's NPC by showing an increase in generation from natural gas plants versus a reduction in coal fired generation. Additionally, continued reduction in outside sales are a reflection of lower overall market prices for electricity caused by lower gas prices. Although there were lower sales, the reduction in natural gas prices and increased gas generation supported the Company's reduction in NPC.

¹ Actual system loads were for the December 2014 through November 2015 time period.

Staff then compared the proposed system NPC of \$25.05/MWh to the \$26.07/MWh Mid-Columbia 2015 weighted average price. The lower overall cost compared to wholesale market prices and the expectation that PacifiCorp should be able to dispatch its own fleet at a cost lower than market supports a lower NPC. Given its analysis, Staff concludes that the Company's proposed NPC is reasonable.

Finally, Staff verified the calculation of the proposed NPC base rate by first ensuring that the Idaho jurisdictional NPC reflected the correct allocation of system costs. Then Staff verified that the Company proposed \$0.319 rate reduction accurately reflected the new NPC rate as illustrated in the table below.

| | Current Rates with 2015 Loads | Proposed Rates with 2015 Loads | <u>Difference</u> |
|----------------------------|--|---|--------------------------|
| Rates (\$/MWh) | 27.215 | 26.896 | (0.319) |
| Load at Meter (MWh) | 3,407,488 | 3,407,488 | - |
| Revenue (\$) | 92,733,539 | 91,646,156 | (1,087,383) |

Rate Design

Commission Order No. 33440 specifies that any change in NPC be recovered on a uniform change to the energy rate component. While the overall base revenue decrease is near 0.4 percent, the revenue impact to each customer class on a percentage basis will differ due to the variance in the ratios of customer charge, demand charge, and the energy component. While the \$0.319 per MWh energy rate decrease was correctly documented in the Company's testimony, Staff found that the rate spread and tariffs included with the Application used an incorrect rate. Upon notification, the Company submitted an updated rate spread and tariff sheets which Staff verified as correct. These were submitted on November 14, 2016. The corrected rate spread is provided as Attachment A to these comments. Based on discussion with the Company, Staff understands the updated tariff sheets are intended to replace the ones originally provided by the Company in Attachment A to its Application.

PTC and REC Updates

The Company is proposing to update PTC and REC rates for purposes of the ECAM without actually changing PTC and REC revenue recovery embedded in base rates. Authorizing the proposal will overstate PTC and REC base rate revenues in the ECAM resulting in an

inaccurate adjustment and over-recovery by the Company. Staff disagrees with the Company's proposal and believes that the \$1.99 per MWh PTC rate and the \$0.09 per MWh REC rate currently embedded in base rates and authorized in PAC-E-15-09 should continue to be used for calculating base rate revenue recovery in the ECAM.

In the PAC-E-15-09 case, base rates were adjusted by reductions in PTC and REC revenue (numerator of the rate calculation) using updated per MWh billing determinants (denominator). Because both the numerator and the denominator changed, it is appropriate to use these rates for purposes of the ECAM because they match PTC and REC revenue recovery embedded in base rates. However, in this case, the Company is proposing to only change the billing determinants or denominator without changing the revenue requirement or numerator. (Wilding, Direct at 4). This would create a mismatch between the PTC and REC base rates used in the ECAM and the amounts actually embedded in base rates. For this reason, Staff believes that the Company's proposal to change the PTC and REC base rates for purposes of the ECAM is improper and should not be authorized.

LCAR Update

Similar to the proposal for PTC and REC rates used in the ECAM, the Company is proposing to update the LCAR rate in the ECAM without changing the LCAR-related costs embedded in base rates. In PacifiCorp's ECAM methodology, the LCAR is the embedded dollar per MWh rate for non-NPC energy-classified production cost. It is used to determine the amount of these costs recovered through base rates so that any over or under recovery can be credited to or surcharged from customers through the ECAM. The Company is proposing to change the LCAR using new billing determinants even though the revenue requirement in base rates for LCAR-related costs are not being changed.²

² Net Power Costs are the only costs proposed to be updated in base rates in this case.

Case No. PAC-E-10-07 was the last case that adjusted LCAR-related expense in base rates. It resulted in an LCAR that was effectively \$6.07 per MWh.³ It was changed to \$5.68 per MWh in the PAC-E-15-09 case; and the Company is proposing to change it in this case to \$5.80 per MWh. In both recent cases, the Company calculated new LCARs using updated per MWh billing determinants without changing LCAR-related expenses reflected in base rates. This results in a mismatch between the LCAR used in the ECAM and the LCAR-related expenses embedded in base rates. Depending on actual loads, using the proposed \$5.80 per MWh LCAR will produce a smaller credit to customers or surcharge to the Company than each party is entitled to receive through the ECAM.

Staff believes that the \$6.07 per MWh LCAR established in PAC-10-07 represents LCAR-related expenses currently embedded in base rates and is unchanged by new base rates proposed by the Company in this case.⁴ It is Staff's position that the \$6.07 per MWh rate be used for LCAR adjustments in the ECAM covering the deferral period from January 1 through December 31, 2017, and for subsequent ECAMs, until the LCAR is changed in the next general rate case.

Rate Stability Plan

Staff reviewed and audited the Company's proposed Rate Stability Plan to keep rates constant and use incremental revenue from the proposed NPC reduction and potential future reductions in the ECAM to offset the depreciation deferral created by the 2013 depreciation case. Revised depreciation rates were approved in Order No. 32926 increasing total Idaho depreciation expense to \$4,614,970 annually effective January 1, 2014. The increased depreciation expense of \$1.8 million was not reflected in base rates but was allowed to be deferred as a regulatory asset for later recovery. The deferral will continue until the new depreciation expenses and amortization of the deferral are included in base rates.

Staff participated in a workshop involving the Company and case intervenors to discuss and consider various aspects of the Company proposed Rate Stability Plan. At completion of the

³ Prior to Case No. PAC-E-15-09, the Load Change Adjustment calculation methodology was based on jurisdictional loads at generation. For example, the LCAR authorized in Case No. PAC-E-10-07 was \$5.47 per MWh using Idaho load at generation of 3,691,675 MWh. In Case No. PAC-E-15-09, the method for calculating the LCAR and the Load Change Adjustment in the ECAM was changed to be calculated using jurisdictional loads at customer meter. Given this approach the equivalent LCAR using, as the numerator, the LCAR-related expense that is currently in base rates; and as the denominator, an Idaho load at customer meter of 3,328,058 MWh would be \$6.07 per MWh.

⁴ See *Supra* n.3.

workshop no consensus had been reached by the parties to move forward with the plan. As a result of this workshop, Staff believes a reduction in rates resulting from reduced NPC should be reflected in base rates effective January 1, 2017. While a base rate reduction is reasonable at this time, Staff encourages all parties to consider the impact on rates from the continued deferral of depreciation expense if there are one-time reductions in upcoming ECAM cases. The depreciation deferral balance is \$4.4 million as of August 2016 and projected to increase to approximately \$8.5 million by December 2018 if no offsets are implemented.

Customer Notice and Press Release

The Company did not file a press release and customer notice with its Application. Per Rule 125 of the Commission's Rules of Procedure, IDAPA 31.01.01.125, utilities are required to notify customers and issue a press release when a change in rates is proposed. Since the Company did not comply with the rule, Staff considered the available options. Staff contacted the Company and the Company agreed to provide notice to customers. The Company filed a press release and customer notification on November 14, 2016. The customer notice will be included with bills mailed beginning November 21 and ending December 12. Although the Commission's deadline for filing comments is November 17, 2016, Staff recommends that the Commission accept late filed comments from the public due to the notification delay.

Customer Comments

As of November 17, 2016, the Commission has received no comments from customers.

STAFF RECOMMENDATIONS

Staff recommends the following with an effective date of January 1, 2017:

1. The Commission authorize a \$0.319 per MWh reduction to base rates.
2. The Commission authorize a \$26.90 per MWh NPC base rate and a \$6.07 per MWh LCAR for purposes of the ECAM.
3. The Commission accept late filed comments from the public due to the delay in notification of the proposed rate decrease.

Respectfully submitted this 17th day of November 2016.



Camille Christen
Deputy Attorney General

Technical Staff: Richard Keller
Mike Louis
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i:umisc:comments/pace16.12rkmrjtcdk comments

**TABLE 1 - RATE DESIGN
ROCKY MOUNTAIN POWER
PROPOSED ENERGY RATE CHANGE AND ESTIMATED REVENUE IMPACT
FROM ELECTRIC SALES TO ULTIMATE CONSUMERS
DISTRIBUTED BY RATE SCHEDULES IN IDAHO
HISTORIC 12 MONTHS ENDED DECEMBER 2015**

| Line No. | Description | Sch. | Average | MWH | Revenue (\$000) | | | |
|----------|---|------|-----------|-----------|--|-----------|-----------|--------|
| | | | Customers | | Present | Proposed | Change | Change |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| | <u>Residential Sales</u> | | | | | | | |
| 1 | Residential Service | 1 | 47,570 | 449,642 | \$50,381 | \$50,238 | (\$143) | -0.3% |
| 2 | Residential Optional TOD | 36 | 12,985 | 218,726 | \$21,124 | \$21,055 | (\$69) | -0.3% |
| 3 | AGA Revenue | | | (2,042) | (\$105) | (\$105) | | |
| 4 | Total Residential | | 60,556 | 666,326 | \$71,400 | \$71,187 | (\$212) | -0.3% |
| 5 | <u>Commercial & Industrial</u> | | | | | | | |
| 6 | General Service - Large Power | 6 | 1,089 | 318,051 | \$24,723 | \$24,622 | (\$101) | -0.4% |
| 7 | General Svc. - Lg. Power (R&F) | 6A | 202 | 27,870 | \$2,391 | \$2,382 | (\$9) | -0.4% |
| 8 | <i>Subtotal-Schedule 6</i> | | 1,291 | 345,921 | \$27,114 | \$27,004 | (\$110) | -0.4% |
| 9 | General Service - High Voltage | 9 | 18 | 123,898 | \$7,666 | \$7,627 | (\$39) | -0.5% |
| 10 | Irrigation | 10 | 5,001 | 552,441 | \$51,560 | \$51,384 | (\$175) | -0.3% |
| 11 | Comm. & Ind. Space Heating | 19 | 99 | 4,814 | \$412 | \$410 | (\$2) | -0.4% |
| 12 | General Service | 23 | 6,821 | 155,208 | \$15,063 | \$15,014 | (\$49) | -0.3% |
| 13 | General Service (R&F) | 23A | 2,356 | 34,221 | \$3,462 | \$3,451 | (\$11) | -0.3% |
| 14 | <i>Subtotal-Schedule 23</i> | | 9,177 | 189,429 | 18,525 | 18,465 | (60) | -0.3% |
| 15 | General Service Optional TOD | 35 | 3 | 1,911 | \$123 | \$123 | (\$1) | -0.5% |
| 16 | Special Contract 1 | 400 | 1 | 1,417,775 | \$84,740 | \$84,290 | (\$450) | -0.5% |
| 17 | Special Contract 2 | 401 | 1 | 115,727 | \$6,681 | \$6,644 | (\$37) | -0.6% |
| 18 | AGA Revenue | | | (13,666) | (\$573) | (\$573) | | |
| 19 | Total Commercial & Industrial | | 15,591 | 2,738,251 | \$196,248 | \$195,374 | (\$874) | -0.4% |
| 20 | <u>Public Street Lighting</u> | | | | | | | |
| 21 | Security Area Lighting | 7 | 192 | 285 | \$110 | \$110 | (\$0) | -0.1% |
| 22 | Security Area Lighting (R&F) | 7A | 132 | 106 | \$43 | \$43 | (\$0) | -0.1% |
| 23 | Street Lighting - Company | 11 | 44 | 101 | \$47 | \$47 | (\$0) | -0.1% |
| 24 | Street Lighting - Customer | 12 | 234 | 2,423 | \$435 | \$435 | (\$1) | -0.2% |
| 25 | AGA Revenue | | | (3) | (\$1) | (\$1) | | |
| 26 | Total Public Street Lighting | | 603 | 2,912 | \$635 | \$634 | (\$1) | -0.1% |
| 27 | Total Sales to Ultimate Customers | | 76,749 | 3,407,488 | \$268,283 | \$267,195 | (\$1,087) | -0.4% |
| | | | | | Proposed revenue change \$K | | (\$1,087) | |
| | | | | | Proposed energy rate change (excluding AGA kWh): cents/kWh | | (0.0318) | |
| | | | | | Average change for all kWh: cents/kWh | | (0.0319) | |

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 17th DAY OF NOVEMBER 2016, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-16-12, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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