

BRANDON KARPEN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
IDAHO BAR NO. 7956

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IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
ROCKY MOUNTAIN POWER REQUESTING)	CASE NO. PAC-E-18-01
APPROVAL OF \$7.8 MILLION NET POWER)	
COST DEFERRAL WITH NO CHANGE TO)	COMMENTS OF THE
RATES)	COMMISSION STAFF
)	

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 34038 on April 19, 2018, submits the following comments.

BACKGROUND

On March 30, 2018, Rocky Mountain Power applied for approval of \$7.8 million in deferred costs, plus interest, from the deferral period beginning January 1, 2017, through December 31, 2017. The Application is made pursuant to the Company's approved Energy Cost Adjustment Mechanism (ECAM). The Company did not seek a change in rates in the Application.

The ECAM allows the Company to collect or credit the difference between the actual net power costs (NPC) "incurred to serve customers in Idaho and the NPC collected from Idaho customers through rates set in general rate cases." Application at 2. On a monthly basis, the Company compares the actual system NPC to the NPC embedded in base rates and "defers the

difference into the ECAM balancing account.” *Id.* at 2-3. The ECAM also includes Load Change Adjustment Revenues (LCAR), which accounts for over- or under-collection of the Company’s energy-related production revenue requirement (excluding NPC) due to variations in Idaho load. *Id.* at 3, 5. In addition, it includes an adjustment related to the accounting treatment of coal-stripping costs as set forth under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) 04-6 pronouncement. *Id.* at 3. Pursuant to the ECAM’s sharing band, 90% of the above costs are allocated to customers and 10% are allocated to the Company. *Id.* The ECAM also includes Deer Creek Mine amortization expense, a resource adder for Lake Side 2, a true-up of actual Production Tax Credits (PTC) and Renewable Energy Credits (REC) revenues included in base rates, and interest. *Id.* at 3-4, 6.

The deferral amount in the Company’s Application, includes the following subject to sharing with an allocation of 90% to customers, and 10% to the Company:

- approximately \$2.1 million for the difference between actual NPC and that included in base rates;
- a credit of approximately \$1.5 million for LCAR, and
- a credit of \$93,048 related to the accounting treatment of coal-stripping costs.

In addition, amounts in the deferral allocated 100% to customers include:

- approximately \$1.3 million for the Deer Creek Mine amortization;
- approximately \$4.1 million for the Lake Side 2 resource adder;
- approximately \$1.8 million for the PTC true-up; and
- approximately \$0.72 million for the REC true-up.

Id. at 5-6.

In sum, the Company requests approval of a deferral balance of \$7.8 million for the period January 1, 2017, through December 31, 2017. The Company requests no change in rates and uses \$4 million of current collection amount to reduce a depreciation regulatory asset that was established in Case No. PAC-E-13-02. Wilding Direct at 5.

STAFF REVIEW

Staff reviewed the Company’s Application focusing on four major areas. First, Staff analyzed whether the costs and revenues in the Company’s NPC were reasonable during the deferral period; second, Staff audited contracts, invoices, and other documents to authenticate

and verify the actual costs and revenues reflected in the Company's deferral balance; third, Staff considered the appropriateness of the Company's proposal; lastly, Staff incorporated the rate reduction proposed in the Rocky Mountain Power Tax Reform Settlement Stipulation related to Case No. GNR-U-18-01.

Analysis of Deferral

Staff believes the Company used a methodology that complies with previous Commission orders. Staff further believes that the Company used accurate actual loads and prudently incurred actual costs/revenues amounts and applied the proper loads, costs, and revenues embedded in base rates. Accordingly, Staff believes the Company accurately adjusted for the difference in prudently incurred actual costs/revenues versus base rate revenue recovery in its Application.

Summary Table of 2017 ECAM Deferral

	<u>Idaho</u> <u>Customers</u>
NPC Differential for Deferral	\$ 2,113,470
EITF 04-6 Adjustment	(93,048)
LCAR	(1,543,064)
Total Deferral Before Sharing	\$ 477,358
Sharing Band	90%
Customer Responsibility	\$ 429,622
Lake Side 2 Resource Adder	4,112,351
Production Tax Credits	1,769,672
Deer Creek Amortization Expense	1,311,666
REC Deferral	71,773
Interest	103,412
Total Company Recovery for NPC Deferral	\$ 7,798,495

Staff reviewed the Company's internal audit work papers, external audit reports, journal entries, invoices, and contracts. Staff also reviewed the Company's adjustments to its actual costs. Staff reconciled the general ledger amounts to the net power costs provided in Company Exhibit No. 1. Staff also reviewed the Company's hedge contracts and policies and believes they reasonably safeguard price stability and fuel stability. In addition, Staff reviewed the entries for

the amortization of the depreciation regulatory asset for Deer Creek mine closure and believes they comply with Order No. 33304 in Case No. PAC-E-14-10. Staff concluded that the NPC in Company Exhibit No. 1 is accurate and complies with ECAM policies.

Staff verified that base amounts used in the calculations were consistent with costs, revenues, and loads that were embedded in base rates during the deferral period. The Company properly used base figures authorized in Order No. 33668 in Case No. PAC-E-16-12 for the 2017 deferral. Staff analyzed each component in the deferral below.

NPC Difference

Adjusted Actual NPC versus Base NPC

	\$ (% Change)	MWh (% Change)	(\$/MWh) % Change
Wholesale Sales	-38%	-49%	21%
Purchased Power	2%	-2%	4%
Coal Fuel	-2%	-4%	2%
Natural Gas	-24%	-40%	26%
Hydro	-	24%	-

The difference between actual Idaho jurisdictional NPC and NPC revenue collected through base rates results in a \$2.1 million NPC differential surcharge. In Rocky Mountain Power's ECAM, a portion of this amount is due to the amount of actual load being approximately 5% greater than the load included in base rates. The remaining portion is due to the difference in the cost of generation and purchases, and revenue from sales.

Regarding cost and revenue differences in the NPC differential, the biggest factors driving this year's deferral is the reduction in wholesale power sales revenue and an increase in the cost of natural gas generation, compared to those embedded in base rates. Because the unit cost of natural gas was 26% greater than the NPC in base rates, the Company appropriately dispatched gas-fired plants about 40% less than expected. However, despite a 21% increase in the market price, the Company sold 49% less than the amount embedded in base rates. Staff believes this was due to natural gas generation costs increasing at a higher rate (26%) than wholesale market prices (21%), and thus the dispatch costs were greater than the market prices, resulting in the lower wholesale sales.

Staff also believes that the moderate reductions in purchased power and generation from coal were appropriate. The unit cost of coal increased by 2%, which led to a 4% reduction in

generation from coal-fired plants. Similarly, the Company purchased less electricity from wholesale markets due to a slight increase in the market price of electricity. While there was a 24% increase in hydro generation, it did not have a large impact on NPC since hydro is a relatively small percentage of the resources in PacifiCorp's system.

EITF 04-6

The EITF 04-6 adjustment reflects the difference between coal stripping costs incurred by the Company and recorded as stated in the accounting pronouncement EITF 04-6 and the amortization approved by the Commission in Case No. PAC-E-09-08. The Company uses this account to "undo" the effects of EITF 04-6 that required the company to expense coal stripping costs as opposed to amortizing it over the coal produced from that section of the open mine. This account is a benefit of \$93,048 to customers. Staff reviewed this adjustment and believes it to be accurately calculated.

LCAR

Staff reviewed the LCAR and determined that it accurately adjusted for the over recovery of fixed energy classified production costs. The Company over-recovered \$1.5 million of fixed energy classified production costs during the deferral period. This was due to higher actual sales than the amount of sales assumed in the base rates for LCAR-related costs.

Production Tax Credit (PTC) Adjustment

In Case No. PAC-E-15-09, the Commission approved a settlement that moved PTCs to the ECAM at \$1.99 per MWh for a total \$7,142,429 for 2017. The Company received an Idaho-allocated \$5,372,757 in PTCs, resulting in a \$1,769,672 adjustment in the ECAM.

Lake Side 2 Resource Adder

In Order No. 32910 in Case No. PAC-E-13-04, the Commission approved a Settlement Stipulation to allow the Company to recover Lake Side 2 generation costs through the ECAM until included in base rates. The Company has complied with this order by using the authorized rate of \$1.99 per MWh of generation up to a maximum of \$5.43 million per year. In 2017, the Company generated 2.066 million MWh for a resource adder of \$4.112 million.

Renewable Energy Credit (REC) Adjustment

In PAC-E-16-12, the Commission approved \$0.09/MWh for Renewable Energy Credits (REC) to be included in base rates. The difference between that amount and actual REC revenue is included in the ECAM. In 2017, actual revenues were lower than the revenues in rates by \$71,773.

Analysis of Rate Reduction and Proposed Rates

In its Application, the Company did not propose a reduction in rates. In Case No. PAC-E-17-02, the Commission authorized the Company to amortize the depreciation regulatory asset created in Case No. PAC-E-13-02 by \$4.0 million or 35% of the ECAM collected. The Company requested to continue to use the \$4 million in excess of the ECAM Deferral to offset the depreciation regulatory asset that continues to grow by approximately \$1.8 million each year.

The Commission required the Company begin accruing a regulatory liability as of January 1, 2018, in Case No. GNR-U-18-01 (Order No. 33965) to record the benefits of tax reform under the Tax Cuts and Jobs Act of 2017. In that proceeding, all parties signed a Stipulation on May 10, 2018, that provides for \$3.5 million—or the entire current balance of the depreciation regulatory asset—to be offset by the aforementioned January through May 2018 regulatory liability. The Parties also agreed that the annual amount left to be offset related to the depreciation regulatory asset is approximately \$1.8 million. This results in a \$2.2 million ECAM rate reduction. For additional transparency and clarity, Staff requested the Company include this deferral offset on a monthly basis on the Company's Idaho ECAM Deferral exhibit, currently included in this Application as the Company's Exhibit No. 1.

Staff reviewed the rate plan proposed in the Stipulation in the GNR-U-18-01, and confirmed that the Company's calculations were accurate, reasonable, and comply with prior Commission orders. The Stipulation rate proposal decreases Schedule 94 rates by \$2.2 million, resulting in a 0.8% ECAM percent decrease, effective on June 1, 2018.

Staff reviewed the proposed rates and found that they were appropriately applied to each customer class on a line-loss adjusted, equal cents per kilowatt-hour basis. Rate impacts by customer class are included in Attachment A to these comments.

CUSTOMER NOTICE, PRESS RELEASE AND PUBLIC COMMENTS

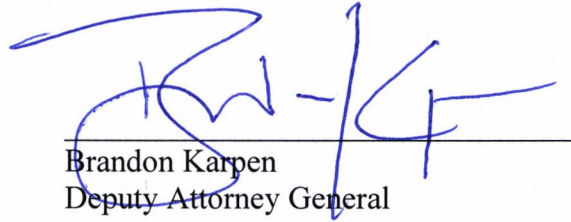
The Company did not file a customer notice or press release with its Application. The Company was not required to provide notice to customers or issue a press release because the Company was not proposing any changes to rates in its Application in this case (PAC-E-18-01). IDAPA 31.01.01.125. If approved by the Commission, the Settlement Stipulation filed in GNR-U-18-01 affects the ECAM and will result in a rate decrease. Staff recommends that customers be notified of any resulting decrease in subsequent bills following the issuance of Commission orders in this case and GNR-U-18-01. As of May 9, 2018, the Commission has not received any customer comments regarding this matter.

STAFF RECOMMENDATIONS

Staff recommends the Commission:

1. Authorize the ECAM deferral amount of \$7,798,495 for the period of January 1, 2017, to December 1, 2017;
2. Adopt the Rocky Mountain Power Tax Act Stipulation to reduce Schedule 94 rates and reduce the depreciation regulatory asset once, and if, it is approved by the Commission;
3. Direct the Company to include the depreciation regulatory asset offset in its future Idaho ECAM Deferral exhibits;
4. Direct the Company to submit tariffs that reflect Commission approved rates; and
5. Direct the Company to notify customers of any resulting decrease in subsequent bills.

Respectfully submitted this 16th day of May 2018.



Brandon Karpen
Deputy Attorney General

Technical Staff: Brad Iverson-Long
Johnathan Farley
Rachelle Farnsworth
Joe Terry
Yao Yin

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TABLE A
ESTIMATED IMPACT OF PROPOSED ECAM ADJUSTMENT
FROM ELECTRIC SALES TO ULTIMATE CONSUMERS
DISTRIBUTED BY RATE SCHEDULES IN IDAHO
HISTORIC 12 MONTHS ENDED DECEMBER 2014

06
01
18

Line No.	Description (1)	Sch. (2)	Average Cust (3)	MWH (4)	Present Rev (\$000)			Proposed Rev (\$000)			Change			
					Base (5)	ECAM (6)	Net (7)	Base (8)	ECAM (9)	Net (10)	Base (11)	% (12)	Net Rev (13)	% (14)
Residential Sales														
1	Residential Service	1	46,059	442,589	\$49,602	\$1,509	\$51,112	\$49,602	\$1,220	\$50,822	\$0	0.0%	(\$290)	-0.6%
2	Residential Optional TOD	36	13,484	235,152	\$22,484	\$802	\$23,286	\$22,484	\$648	\$23,132	\$0	0.0%	(\$154)	-0.7%
3	AGA Revenue				\$3		\$3	\$3		\$3				
4	Total Residential		59,543	677,741	\$72,090	\$2,311	\$74,401	\$72,090	\$1,868	\$73,958	\$0	0.0%	(\$443)	-0.6%
Commercial & Industrial														
5	General Service - Large Power	6	1,036	303,011	\$23,667	\$1,028	\$24,695	\$23,667	\$831	\$24,498	\$0	0.0%	(\$197)	-0.8%
6	General Svc. - Lg. Power (R&F)	6A	214	30,600	\$2,616	\$104	\$2,721	\$2,616	\$84	\$2,701	\$0	0.0%	(\$20)	-0.7%
7	Subtotal-Schedule 6		1,250	333,611	\$26,283	\$1,132	\$27,415	\$26,283	\$915	\$27,198	\$0	0.0%	(\$217)	-0.8%
9	General Service - High Voltage	9	17	121,001	\$7,626	\$387	\$8,013	\$7,626	\$314	\$7,940	\$0	0.0%	(\$74)	-0.9%
10	Irrigation	10	4,969	602,488	\$54,316	\$2,054	\$56,371	\$54,316	\$1,660	\$55,977	\$0	0.0%	(\$394)	-0.7%
11	Comm. & Ind. Space Heating	19	103	5,151	\$438	\$18	\$456	\$438	\$14	\$452	\$0	0.0%	(\$3)	-0.7%
12	General Service	23	6,634	153,848	\$14,913	\$524	\$15,437	\$14,913	\$424	\$15,337	\$0	0.0%	(\$101)	-0.7%
13	General Service (R&F)	23A	2,314	33,450	\$3,376	\$114	\$3,490	\$3,376	\$92	\$3,468	\$0	0.0%	(\$22)	-0.6%
14	Subtotal-Schedule 23		8,948	187,299	\$18,289	\$638	\$18,928	\$18,289	\$516	\$18,805	\$0	0.0%	(\$122)	-0.6%
15	General Service Optional TOD	35	3	1,893	\$123	\$6	\$129	\$123	\$5	\$128	\$0	0.0%	(\$1)	-1.0%
16	Special Contract 1	400	1	1,443,926	\$86,967	\$4,621	\$91,588	\$86,967	\$3,743	\$90,710	\$0	0.0%	(\$878)	-1.0%
17	Special Contract 2	401	1	107,486	\$6,264	\$344	\$6,608	\$6,264	\$279	\$6,543	\$0	0.0%	(\$65)	-1.0%
18	AGA Revenue				\$478		\$478	\$478		\$478				
19	Total Commercial & Industrial		15,293	2,802,855	\$200,786	\$9,201	\$209,987	\$200,786	\$7,446	\$208,232	\$0	0.0%	(\$1,755)	-0.8%
Public Street Lighting														
20	Security Area Lighting	7	193	267	\$102	\$1	\$103	\$102	\$1	\$103	\$0	0.0%	(\$0)	-0.2%
21	Security Area Lighting (R&F)	7A	136	107	\$44	\$0	\$44	\$44	\$0	\$44	\$0	0.0%	(\$0)	-0.2%
22	Street Lighting - Company	11	37	87	\$40	\$0	\$40	\$40	\$0	\$40	\$0	0.0%	(\$0)	-0.1%
23	Street Lighting - Customer	12	234	2,424	\$436	\$8	\$444	\$436	\$7	\$442	\$0	0.0%	(\$2)	-0.4%
24	AGA Revenue				\$0		\$0	\$0		\$0				
25	Total Public Street Lighting		600	2,884	\$621	\$10	\$631	\$621	\$8	\$629	\$0	0.0%	(\$2)	-0.3%
26														
27	Total Sales to Ultimate Customers		75,435	3,483,480	\$273,497	\$11,522	\$285,019	\$273,497	\$9,322	\$282,819	\$0	0.0%	(\$2,200)	-0.8%

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16TH DAY OF MAY 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

TED WESTON
ROCKY MOUNTAIN POWER
1407 WEST NORTH TEMPLE STE 330
SALT LAKE CITY UT 84116
E-MAIL: ted.weston@pacificorp.com

YVONNE R HOGLE
ASSIST GENERAL COUNSEL
ROCKY MOUNTAIN POWER
1407 WN TEMPLE STE 320
SALT LAKE CITY UT 84116
E-MAIL: yvonne.hogle@pacificorp.com

DATA REQUEST RESPONSE CENTER
E-MAIL ONLY:
datarequest@pacificorp.com

RANDALL C BUDGE
THOMAS J BUDGE
RACINE OLSON NYE & BUDGE
PO BOX 1391
POCATELLO ID 83204
E-MAIL: rcb@racinelaw.net
tjb@racinelaw.net

BRUBAKER & ASSOCIATES
16690 SWINGLEY RIDGE RD
#140
CHEDTERFIELD MO 63017
E-MAIL: bcollins@consultbai.com
kiverson@consultbai.com



SECRETARY