DECISION MEMORANDUM

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FROM:SCOTT WOODBURY

DATE:May 14, 1997

RE:WWP-E-97-3

PCA—REBATE ($2,639,000)

On April 1, 1997, The Washington Water Power Company (Water Power; Company) in Case No. WWP-E-97-3 filed an Application with the Idaho Public Utilities Commission (Commission) proposing a revision to the Company’s Electric Tariff Schedule 66—Temporary Power Cost Adjustment—Idaho.  Water Power requests that the Commission approve a $2,639,000, 2.42% rebate to Water Power’s Idaho customers.  The rebate is being requested as a result of the “trigger” being reached and exceeded in Water Power’s Power Cost Adjustment (PCA) balancing account as established in Case No. WWP-E-88-3, Order No. 22816 issued October 31, 1989, extended in Case No. WWP-E-93-3, Order No. 24874, and extended and modified in Case No. WWP-E-94-4, Order No. 25637.  Since the inception of the PCA in October 1989, the Company’s customers in the state of Idaho have received three rebates and three surcharges:

$2,247,000, 2.45%, rebate beginning May 1, 1990

$2,314,000, 2.51%, rebate beginning May 1, 1991

$2,272,000, 2.59%, surcharge beginning November 1, 1992

$2,239,000, 2.54%, surcharge beginning January 1, 1995

$2,258,000, 2.43%, surcharge beginning September 1, 1995

$2,482,000, 2.34%, rebate beginning September 1, 1996

The present PCA rate adjustment mechanism, as more particularly described in Order No. 25637, is designed to recover/rebate variances in net power supply expenses incurred by the Company.  The PCA mechanism tracks changes in the Company’s power supply costs associated with abnormal weather and streamflows.  The weather-related portion of the PCA tracks 100% of the variation in hydro generation from the hydro generation authorized.  It also tracks 80% of the variation in secondary prices from those authorized, and the related variation in thermal generation.  The PCA is also designed to recover contract costs incurred pursuant to Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) beyond the level included in the Company’s general revenue requirement.  PURPA contract costs are the result of the Company’s federally mandated obligation to purchase the output of qualifying small power and cogeneration facilities and, therefore, are largely outside the control of Water Power.  The PCA tracks 100% of the changes in costs associated with PURPA contracts.  The Company is allowed to record the difference between actual power supply costs and the level of those costs authorized by the Commission.  When the total difference in costs exceed $2.2 million, the Company is required to notify the Commission. An application for a related surcharge or rebate normally follows.  As reflected in the Company’s Application, the $2.2 million trigger was reached and exceeded at the end of January 1997.

As represented by Water Power, the net deferral of $2,639,000 in the Company’s PCA balancing account is the result of the sum of (1) total weather-related deferrals of $2,582,000 in the rebate direction and (2) PURPA tracker deferrals of $101,000 in the rebate direction.  The net deferral amount includes a true-up or correction for prior months of $44,420 in the surcharge direction.  The weather-related and PURPA tracker deferrals are more particularly described as follows:

1.  Weather-related deferrals

As reported by the Company, the weather-related rebate results from above normal streamflow conditions from April 1996 through January 1997.

The Company reports that for the months of April 1996 through January 1997 actual hydro generation averaged 124.5 average megawatts or 23% above anticipated hydro generation.  The Company reports that actual weighted average secondary prices were significantly below those anticipated for the months of April 1996 through October 1996 resulting in lower secondary sales revenues than would otherwise be expected.  This was due to a combination of events:  above normal streamflows throughout the region resulting in an over abundance of hydro generation and low prices for wholesale power transactions.

2.  PURPA tracker deferrals

Workpapers filed by the Company show a net deferral of $101,000 for the PURPA tracker in the rebate direction for the months of April 1996 through January 1997.

Deferrals in the surcharge direction, the Company reports, were due mainly to Water Power’s contract with the City of Spokane for energy purchased from their Upriver Hydro Project located on the Spokane River and surcharges from WWP’s six small PURPA hydro projects.  The deferrals in the surcharge direction were primarily a result of above normal stream flows which led to increased generation at these projects.

Deferrals in the rebate direction were primarily due to lower costs for the Vaagen Brothers cogeneration project and the Wood Power, Inc., cogeneration project.  The output of the Vaagen Brothers project is valued at secondary prices which leads to costs significantly below authorized costs.  Much of the savings from the Wood Power, Inc. cogeneration project were due to reduced costs from October 1996 through December 1996.  Water Power’s agreement to terminate the power purchase contract with Wood Power, Inc., effective January 1997, contained provisions to lower the rate Water Power paid for the project output for the months October 1996 through December 1996.  Also during that three month period, the Wood Power, Inc. project had reduced output in preparation for a change of ownership of the facility when Water Power’s power purchase contract with Wood Power, Inc. terminated in January 1997.  Effective January 1997, the Wood Power, Inc. cogeneration project is no longer included in the authorized PCA costs.

The mechanics of a PCA rate adjustment are well defined in the Commission’s 1989 PCA Order.  The rate change is to take place over a period of 12 months at the end of which time Water Power is to file a report indicating the total amount collected or rebated.  Any existing difference is to be credited or debited to the balancing account.  The rate change is applied to all customer class rates on a uniform percentage basis and recovered on the energy component of each schedule except for lighting schedules where recovery is to be on a flat rate uniform percentage basis.  PCA related rate changes are limited to no more than two consecutive surcharges or rebates during any 12-month period, July 1 to June 30, and the annual rate change during any 12-month period is limited to 5%.

Under the Company’s proposal in this case, the monthly energy charges of the individual rate schedules are to be decreased by the following amounts:

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| --- | --- | --- |
|  | Present  Sch. 66 Rebate  (expires 8/31/97)  (2.34%) | Proposed  Sch. 66 Rebate  Decrease Per Kilowatt Hour  (2.42%) |
| Schedules 1,71 (Residential) | .109¢/kWh | .114¢/kWh |
| Schedules 2, 3, 11, 12, 72, 73, 77  (General) | .160¢/kWh | .164¢/kWh |
| Schedules 4, 5, 21, 22, 74, 75, 78  (Large General) | .111¢/kWh | .112¢/kWh |
| Schedules 8, 25, 26  (Extra Large General) | .068¢/kWh | .073¢/kWh |
| Schedules 31, 32, 76 (Pumping) | .101¢/kWh | .134¢/kWh |

Flat rate charges for Company-owned or customer-owned street lighting and area lighting service (Schedules 6, 7, 9, 41-49, 70 & 79) are to be decreased 2.42%.   The proposed rebate will result in an overall decrease of 2.42% in the Company’s Idaho customer’s rates or $1.16 in the monthly bill of an average residential customer using 1,020 kilowatt hours.  The combined effect of both the existing and proposed rebates is an overall decrease of 4.77%, or $2.27 in the monthly bill of an average residential customer using 1,020 kilowatt hours.  The existing rebate, however, will expire on August 31, 1997.

Water Power has requested that its rebate be effective June 1, 1997, and expire May 31, 1998.  The Company, as part of its Application, has filed supporting testimony and exhibits.

On April 11, 1997 Notices of Application and Modified Procedure were issued in Case No. WWP-E-97-3.  The deadline for filing written comments was May 16, 1997.  Commission Staff was the only party to file comments (Attached).  Staff recommends approval of the Power Cost Adjustment rebate as filed by the Company for an effective date of June 1, 1997.  Following are pertinent excerpts from Staff’s comments:

The Commission Staff (Staff) has audited the Company’s books and reviewed its calculations and workpapers.  Staff finds the Company’s calculations to be accurate, with the exception of one item.  The one excepted item deals with the treatment of expired contracts in the PCA power supply model.  Preliminary results of this review indicate that another rebate trigger will be reached when the appropriate corrections are made.  It is anticipated that the Company will file notice of the next trigger being reached on May 15, 1997, which will start processing of the next rebate.

In the current filing the Company has changed the Idaho jurisdictional allocation factor from .3278 to .3140 after consultation with Staff early in the PCA period.  The change results from removing the Potlatch Special Contract from the Idaho jurisdictional load for purposes of the PCA because the Potlatch Special Contract rates are not subject to PCA adjustment.  Staff agrees that this is an appropriate adjustment.

Commission Decision:

Does the Commission continue to find Modified Procedure appropriate in Case No. WWP-E-97-3?  Should the proposed PCA rebate be approved for an effective date June 1,1997?  If not, what is the Commission’s preference?

Scott Woodbury

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