Office of the Secretary
Service Date
May 29, 2020

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO IMPLEMENT POWER COST ADJUSTMENT (PCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2020 THROUGH MAY 31, 2021	))))))	**CASE NO. IPC-E-20-21** **ORDER NO. 34682**

On April 15, 2020, Idaho Power Company filed its annual power cost adjustment (PCA) Application. The Company seeks an order approving an update to Schedule 55 reflecting a $58.7 million increase in the PCA rates now in effect (or an average increase of approximately 5.21% of current billed revenue), effective June 1, 2020 through May 31, 2021. If approved, a typical residential customer's bill would increase by about $4.01 per month.

On April 30, 2020, the Commission issued a Notice of Application and Notice of Modified Procedure, setting a May 14, 2020 comment deadline and a May 21, 2020 reply comment deadline. Order No. 34656. Commission Staff filed comments, and Idaho Power filed reply comments. No additional comments were received.

Having reviewed the record, the Commission approves the Company's Application as discussed below.

OVERVIEW OF THE PCA

The PCA mechanism permits Idaho Power to adjust its PCA rates upward or downward to reflect the Company's annual "power supply costs." Due to its diverse generation portfolio, Idaho Power's actual cost of providing electricity (its power supply cost) varies from year to year depending on changes in river streamflow, the amount of purchased power, fuel costs, the market price of power, and other factors. The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate.

The annual PCA mechanism consists of three major components.

First, projected power costs for the coming PCA year (June 1, 2020 to May 31, 2021) are calculated using the Company's most recent "Operating Plan." The projected power costs include fuel costs, transmission costs for purchased power, Public Utility Regulatory Policies Act of 1978 (PURPA) contract expenses, surplus sales revenues, and revenues from the sale of renewable energy credits and sulfur dioxide allowances. The Company may recover 95% of the difference between the non PURPA projected power costs and the approved base power cost, 100% of the costs of its PURPA contracts, and 100% of its demand-side management incentive and conservation costs. *See* Order Nos. 30715 and 32426 at 3.

Second, because the PCA includes forecasted costs, the preceding year's forecasted costs are "trued-up" based upon the actual costs incurred during the prior year. The Company includes its actual costs of Western Energy Imbalance Market participation from April 2019 through March 2020 in the true-up. *See* Order No. 34100.

Finally, the Company reconciles the previous year's true-up by crediting to or collecting from customers through the PCA rate any surplus or deficit from the prior year's true-up. This third "reconciliation" component (the "true-up of the true-up") ensures the Company recovers its actual approved costs while ratepayers pay only for the actual amount of power that the Company sold to meet native load requirements. In other words, ratepayers receive a rate credit when power costs are low and are assessed a rate surcharge when power costs are high.

THE APPLICATION

The Company stated that if the Application is approved, its Idaho customers collectively would pay about $58.7 million (5.21%) more for electricity in the upcoming year than they do now. The Company's Application would impact major customer classes as follows:

Proposed 2020 Revenue Impact by Class:
Percentage Increase from Current Billed Rates

Residential	Small General Service	Large General Service	Large Power	Irrigation
4.20%	3.47%	5.76%	7.50%	5.32%

Besides this case, the Company filed its annual fixed cost adjustment (FCA) on March 13, 2020 in Case No. IPC-E-20-14. That filing proposes a $710,580 increase in current billed revenue (approximately 0.02%) for Idaho Residential and Small General Service customers. If the PCA and the FCA are approved as filed, the combined impact is an overall increase in current billed revenue of $58.8 million, or 5.22%.

The Company attributed this year's PCA increase to several factors. Surplus power sales revenue is expected to decrease due to an expected reduction in hydro generation and lower market energy prices. Also, the Company will likely decrease coal-fired generation because it is less economic for load service and off-system sales. Another factor contributing to the PCA increase is the removal of the revenue-sharing credit received last year. Under Order No. 33149, the Commission requires the Company to share revenue with its customers if the Company's Idaho jurisdictional year-end return on equity (ROE) is 10.0% or greater. The Company's Idaho jurisdictional year-end ROE in 2019 was 9.8% and therefore does not meet the threshold for revenue sharing.[1]

Unlike the 2018-2019 and the 2019-2020 PCA tariff schedules, this year's PCA tariff schedule does not include a credit to customers reflecting the Company's savings from federal tax reform and Idaho state tax rate changes. Under a settlement stipulation approved by the Commission in Order No. 34071, Case No. GNR-U-18-01, Idaho Power applied a $7,818,624 credit to its 2018-2019 PCA tariff schedule, and a $2,680,957 credit to its 2019-2020 PCA tariff schedule. Under the settlement stipulation, the credit will be reduced to $0 beginning June 1, 2020.

While acknowledging the proposed PCA increase will impact customers during a financially challenging time, the Company argued the long-term dangers of deferring the increase are greater than the short-term benefits. Specifically, the Company noted that deferring the increase risks "pancaking" the increase onto potential future increases. Tatum Direct at 27-28. The Company noted deferring a PCA increase would also be inconsistent with past Commission orders. *See* Order Nos. 29026, 30563, 30828, and 32821. Additionally, Idaho Power argued deferring the PCA increase could negatively impact the Company financially.

STAFF COMMENTS

Staff recommended the Commission approve Idaho Power's proposed update to Schedule 55 as filed. Staff extensively audited each of the PCA's components—the projected power costs for the coming year, the true-up of the preceding year's forecasted costs, and the reconciliation of the true-up. Staff audited the Company's sales and costs for the 2019-2020 PCA year and Idaho Power's forecasting methodologies for the upcoming 2020-2021 PCA year. Staff also verified the Company's Application and methodologies comply with prior Commission orders. Staff concluded from the audit that:

a. The Company complied with Commission Order Nos. 24806, 30715, 30978, 32206, 32424, 33149, and 33307 when calculating the incremental change in the upcoming year's PCA rates;

[1] By comparison, the 2019-2020 PCA included a revenue-sharing component of $5,024,562. *See* Case No. IPC-E-19-16, Order No. 34351.

b. The actual loads, fuel consumption, fuel costs, purchased power costs, and kilowatt-hour sales for the current PCA year (2019 -2020) are accurate;

c. For the upcoming PCA year (2020-2021), the Company conducted a reasonable forecast of kilowatt-hour sales, loads, fuel consumption, fuel costs, and purchased power costs;

d. The Company incurred a reasonable and prudent amount of actual [net power supply expense (NPSE)] to serve its customer load; and

e. The Company's Idaho jurisdictional 2019 year-end Return on Equity (ROE) was 9.8%. Since this was under the 10.0% ROE threshold for revenue sharing that was set in Order No. 33149, there isn't a credit this year.

Staff Comments at 5-6.

PCA methodology in future cases

Staff recommended the Commission order Idaho Power to meet with Staff to discuss simplifications to the PCA mechanism. "Staff believes the Company's PCA could be simplified, while not diminishing its purpose, by removing the forecast component which has contributed to significant rate fluctuations for customers." *Id.* at 13.

Staff noted the Company's PCA has varied considerably since 2011, from a credit of 0.0629 cents per kWh in 2011 to a surcharge of 1.2306 cents per kWh in 2013. "If applied to current rates, this difference would represent a 14.6% fluctuation in annual charges for a residential customer using 800 kWh per month." *Id.* Staff did not criticize the Company's forecasting methodology, noting the methodology is "more than satisfactory for most business purposes." *Id.* at 14. However, Staff believes eliminating the forecasting component of the PCA would create more rate stability without impacting the Company's ability to fully collect its revenue requirement. Staff noted Avista and Rocky Mountain Power have power cost recovery mechanisms similar to Idaho Power's PCA, but do not include forecasts.

Staff plans to study Idaho Power's PCA mechanism prior to next year's filing and believes meeting with the Company during this process would be beneficial.

Customer notice and press release

Idaho Power's Application included a press release and customer notice, and Staff believes both meet the requirements of procedural Rule 125, IDAPA 31.01.01.125. Notice was or will be mailed with bills. Staff recommended the Commission accept and consider late-filed customer comments. To date, the Commission has received no customer comments on this case.

THE COMPANY'S REPLY COMMENTS

Idaho Power's reply comments focused on Staff's assertion that the PCA could be simplified by removing the forecast component of the PCA mechanism. The Company argued that eliminating the forecast component of the PCA would defeat the purpose of the PCA, would financially harm Idaho Power and its ratepayers, and would probably not improve rate stability.

Idaho Power noted the current PCA mechanism is specifically designed to "address the variability in NPSE from year to year as stream flows change…." Company Reply at 4. The Company quoted the Commission order implementing the PCA, in which the Commission noted:

> We find that a forecast-based PCA with a true-up is most appropriate for Idaho Power. A forecast most closely matches costs to the time period in which they are incurred. This sends the more appropriate price signals to ratepayers…
>
> Ratepayers in Idaho Power's service territory are aware of changing stream flow conditions and understand the impact they have on the cost of generating electricity. A PCA that adjusts rates to reflect projected stream flows for the coming year should be understandable to ratepayers and send short-term price signals to ratepayers more reflective of actual conditions…
>
> Finally, we find that a forecast-based PCA that trues-up to actual, as proposed by Idaho Power, eliminates the possibility of the Company over-recovering its power supply costs.

Id.; *see* Order No. 24806 at 8-9. Idaho Power asserted that limiting the PCA mechanism to a true-up component would be contrary to the Commission-recognized purposes of the PCA. In particular, it would "send inaccurate price signals to customers as they would pay for current energy use at rates that reflect expenses from energy consumed in a prior time." Company Reply at 5.

Additionally, Idaho Power argued that removing the forecast component from the PCA could cause financial harm to the Company and lead to higher costs for its customers. In years where the actual NPSE is higher than what is being collected through rates, Idaho Power might have to make up the difference by borrowing money. Also, Idaho Power's credit rating could be downgraded. The result could be "higher costs to fund Company operations, which are ultimately passed on to customers through rates." *Id.* at 6.

Finally, the Company noted that removing the forecast component from the PCA is unlikely to provide greater rate stability. The Company notes that a "review of the variation in actual NPSE compared to the PCA forecast of NPSE over the prior 10 years reveals that a deferred accounting approach would have resulted in similar, if not larger, variations in annual rate adjustments." *Id.* at 8, Attachment 1.

Nevertheless, Idaho Power stated it would be willing to meet with Staff to further discuss the topic. The Company requested the Commission approve the Application as filed.

FINDINGS AND DISCUSSION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-502 and 61-503. The Commission is empowered to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential, discriminatory, or in violation of any provision of law, and to fix the same by order. *Idaho Code* §§ 61-502 and 61-503. After reviewing the record, including the Company's Application and the comments, we find it fair, just, and reasonable to grant Idaho Power's request to increase its PCA rates as reflected in proposed Schedule 55, effective June 1, 2020.

Regarding Staff's concern about the forecast component of the PCA methodology, we find that it is worthwhile to consider whether the PCA methodology that has been in use for the past 27 years is still the best methodology for Idaho Power and its customers. We appreciate Idaho Power's informative reply comments defending the current methodology, and we agree that the forecast component of the PCA is probably essential for an electric utility that has significant NPSE variability year to year due to stream flows. As we noted in our order approving the current PCA methodology, a "forecast most closely matches costs to the time period in which they are incurred," which sends the appropriate price signals to customers. *See* Order No. 24806. Nevertheless, much has changed since 1993. Idaho Power's generation portfolio is significantly different, natural gas prices are currently less volatile, and capital investments and financial conditions also differ. If the PCA can be modified to improve rate stability while sending appropriate price signals and making Idaho Power whole, the Commission would consider such a modification.

We encourage the Company to meet with Staff and other interested parties to determine whether any improvements to the PCA mechanism can reasonably be made. If, as a result of these meetings, Staff or others believe improvements can be made to the mechanism, we encourage them to bring a proposal before the Commission.

ORDER

IT IS HEREBY ORDERED that Idaho Power's Application is approved as discussed above. The Company shall have a uniform PCA rate of 0.4862 cents per kWh, effective June 1, 2020. The Company's proposed Schedule 55 is approved as filed.

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 about any matter decided in 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 29th day of May 2020.

Paul Kjellander
PAUL KJELLANDER, PRESIDENT

Kristine Raper
KRISTINE RAPER, COMMISSIONER

Eric Anderson
ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Diane M. Hanian
Commission Secretary

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