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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, 2021 THROUGH MAY 31, 2022	)	**CASE NO. IPC-E-21-10** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, John R. Hammond, Jr., Deputy Attorney General, submits the following comments.

BACKGROUND

On April 15, 2021, Idaho Power Company (the "Company") filed its annual power cost adjustment ("PCA") Application. The Company seeks an Order approving an update to Schedule 55 reflecting a $39.1 million increase in the PCA rates currently in effect (or an average increase of approximately 3.36% of current billed revenue), effective June 1, 2021 through May 31, 2022. If approved, the Company's bill to a typical residential customer would increase by about $2.57 per month.

Besides the PCA, the Company recently filed its annual Fixed Cost Adjustment ("FCA") which, if approved, will impact rates for the same period. *Id.* at 8; *see also* Case No. IPC-E-21-03.

If approved as filed, the proposed PCA and FCA rate adjustments would combine to increase the Company's current billed revenue by $41.2 million, or 3.55%, effective June 1, 2021. *Id.* at 9.

STAFF ANALYSIS

Staff recommends approval of the Company's proposed update to Schedule 55 reflecting a $39.1 million increase in revenue, effective June 1, 2021 through May 31, 2022. This recommendation is based on Staff's audit of sampled transactions, examination of the testimony and workpapers of Company witness Nicole Blackwell, and Company responses to Staff's audit requests.

Audit Review

Staff examined the Company's sales and expenses for the historical 2020-2021 PCA year and its forecasting methods, projected revenues, and expenses for the upcoming 2021-2022 PCA year. Staff also verified that the Company's filing and methods complied with prior, relevant, Commission Orders. Staff concludes that:

1. For the upcoming PCA year (2021-2022), the Company's forecast of electricity sales, loads, fuel consumption, fuel costs, and purchased power costs are accurate and reasonable;
2. The Company reasonably and prudently incurred actual Net Power Supply Expense ("NPSE") to serve customers during the current PCA year (2020-2021); and
3. The Company's Idaho jurisdictional 2020 year-end Return on Equity ("ROE") of 9.98% is accurate. Since this ROE is under the 10.0% ROE threshold for revenue sharing set in Order No. 33149, there is not a credit to customers this year.

Components of Proposed PCA Increase

The components of the $39.1 million increase in the PCA are shown in Table No. 1:

Table No. 1: Revenue Impact by PCA Rate Component

Rate Component	2020-2021 PCA	2021-2022 PCA	Difference
PCA Forecast	$113,084,635	$126,944,108	$13,859,473
PCA True-up	($42,892,181)	($17,641,954)	$25,250,227
Revenue Sharing	$ 0	$0	$0
PCA Total	$70,192,455	$109,302,154	$39,109,700

The Company's power supply costs vary each year depending on several factors, including changes in river streamflow, the amount of purchased power, fuel costs, and the market price of power. The PCA mechanism trues up to yearly differences between actual power supply costs and the NPSE collected through base rates. With the PCA, the Company's customers are paying its actual NPSE, less the sharing band.

The Company's power supply costs and surplus sales are subject to a 95%/5% sharing band, with the Company responsible for 5% of the excess NPSE compared to revenue the Company collected through base rates. The Commission created this sharing band to incentivize the Company to make careful resource acquisition and operating decisions. If actual costs are less than revenue collected, the Company keeps 5% of that difference. If costs are more than revenue collected, customers pay 95% of the excess costs and the Company absorbs 5%.

Forecast Analysis

The Company used its March 25, 2021 Operating Plan to forecast the difference between NPSE embedded in base rates and NPSE the Company expects to recover in the coming year. The Company uses a dispatch simulation model to determine and analyze projected load, resource balance, and energy supply for the upcoming PCA year. The forecast also accounts for forward market energy prices, hydro generation, fuel prices, existing hedge transactions, and costs associated with Public Utility Regulatory Policies Act ("PURPA") and non-PURPA contracts.

In its forecast, the Company projects that hydro generation will be lower than average and market prices for energy will increase. With these two factors, the Company expects to have higher power costs at its coal and natural gas plants and fewer market purchases.

Based on its forecast, the Company expects to collect $126.9 million from Idaho customers from June 1, 2021 through May 31, 2022. *See* Blackwell at 16. The over- or under-collected amount due to the difference between this forecast and actual revenues and NPSE will be trued-up in next year's PCA.

True-Up Analysis

The true-up deferral balance of negative $22.1 million includes six different components: (1) the difference between actual NPSE from June 1, 2020 to May 31, 2021 and NPSE recovered through base rates; (2) forecasted revenues collected through the PCA since June 1, 2020; the Company's expenses for its participation in the Western Energy Imbalance Market ("EIM"), (3) the difference between actual Renewable Energy Credit ("REC") revenues and revenues credited through base rates; (4) the difference between actual Demand Response ("DR") incentive payments and amounts recovered in base rates; (5) the difference between actual and forecasted PCA revenues for the current PCA year; and (6) accrued interest for monthly balances over the current PCA year.

Based on its review, Staff has confidence that the Company's proposed true-up deferral is accurate, conforms to past Commission orders, and that costs incurred were reasonable and prudent. Staff's review included: (i) a review and virtual audit of the true-up components; (ii) an analysis of the methods and the basis used to calculate the cost deferrals and account balances; (iii) an examination of the actual NPSE, including the Company's energy risk management policies and actions; and (iv) an analysis to determine if the Company prudently dispatched resources, purchased power, and sold power in the wholesale market.

Table No. 2, below, summarizes the components of the true-up deferral balance. Positive numbers represent a cost to customers, which would raise the PCA rate on customer bills, and negative numbers represent a benefit to customers. All amounts are shown after jurisdictional allocation and the 95%/5% sharing band.

Table No. 2: PCA True-Up Summary

Deferral Category	Deferral Amount
Net Power Supply Expense	
Fuel Expense – Coal	$11,672,505
Fuel Expense – Gas	19,625,634
Non-Firm Purchases	26,731,334
Off-System Sales / Surplus Sales	-11,917,999
Third Party Transmission Expense	-1,446,798
Water for Power (Leases)	-1,712,097
Subtotal - Net Power Supply Expense	$42,952,580
Other PCA Expenses	
Renewable Energy Credit Sales	-4,736,347
Sales Based Adjustment	-18,147,961
Qualifying Facilities	65,290,917
Demand Response Incentive Payments	-4,697,614
EIM Participation Costs	3,026,440
Subtotal – Other PCA Expenses	$40,735,435
Total PCA Expenses	$83,688,015
PCA Forecasted Revenue	-105,761,199
Ending Deferral Balance (Expenses less PCA Forecasted Revenue)	-$22,073,184
Interest on the Deferral Balance	-83,603
Total True-Up Deferral	-$22,156,787[1]

[1] The "Subtotal - Net Power Supply Expense" and "Total True-Up Deferral" amounts in Table No. 2 do not match their totaled amounts due to rounding.

This year's total true-up deferral reduces the PCA balance by $22.1 million, which reduces the PCA rate by 0.1535 cents per kWh. In last year's PCA, the true-up deferral lowered rates by 0.222 cents per kWh. Table No. 2 above summarizes the true-up reduction. Specific components of the true-up are discussed below.

Net Power Supply Expense Deferral

As stated above, Staff believes the Company prudently incurred NPSE to meet customer load. The Company's NPSE primarily consists of costs related to coal and other fuels, non-PURPA purchased power, and surplus sales. The main NPSE components are described below:

1. *Fuel Expense – Coal*. The Company has an ownership stake in and receives electricity from three coal plants. Staff reviewed all months of coal expenses and performed an in-depth audit for the months of June and November 2020. In the deferral year, actual coal expenses for Idaho customers were $11.7 million more than the coal expense included in base rates and the previous forecast, which increases PCA deferral.
2. *Fuel Expense – Gas*. The Company owns and operates three gas-fired plants. Staff reviewed all months of the natural gas expenses and performed an in-depth audit for June and November 2020. The transactions were reasonable and follow the Company's energy risk management policies and standards. In the deferral year, actual natural gas expenses were $19.6 million more than the expense included in base rates and in the previous PCA forecast, increasing the deferral amount to be collected from customers.
3. *Non-firm Purchases*. The Company buys wholesale power as needed to supplement its own generation and to meet the Company's operating reserve margin requirements by considering its energy risk management policy, unit availability guidelines, and market conditions. In addition, the Company's EIM purchases are included as non-firm purchases; other EIM costs are included as a separate NPSE component.

   Staff reviewed purchases and transactions made during the PCA deferral period and found they appear to be reasonable and follow the Company's Risk Management Committee recommendations. These transactions were made with an assortment of credit-worthy partners in a timely manner. Actual non-PURPA power purchases exceeded base amounts by $26.7 million, increasing the deferral balance.

4. *Off-System Sales*. The Company's revenues from power sales were $11.9 million more than the amount included in base rates and in the forecast. This amount decreases the deferral balance to be recovered from customers.
5. *Third-Party Transmission*. In Order No. 30715, the Commission directed the Company to track third-party transmission costs associated with market purchases and off-system sales through the PCA. In the deferral year, third-party transmission expenses were $1.4 million less than the base amounts, which decreases the deferral balance to be recovered from customers.
6. *Water Leases*. The Company incurs lease expenses for water to produce hydro power. In the deferral year, actual lease expenses were $1.7 million less than those in base rates. This amount is deducted from the deferral balance.

Other PCA Expenses

7. *REC Sales*. In Order No. 30818, the Commission required the Company to sell all RECs it receives for renewable generation, to benefit its customers. Staff audited the Company's REC transactions in the PCA deferral year and verified that the amount included in the deferral period is accurate. In the deferral year, the Company's revenues from REC sales were $4.7 million more than the expected amount in base rates. These incremental revenues decreased the deferral balance.
8. *Sales-Based Adjustment ("SBA")*. The difference in actual and base rate sales is multiplied by the SBA rate of $26.72/MWh, as set in Order No. 33307, to determine the over- or under-recovery of actual NPSE due to sales that are higher or lower than sales used to determine base rates (subject to 95% customer sharing). This year, the Company calculates an $18.1 million SBA decrease to the deferral balance due to the Company's over-recovery of actual NPSE. Staff audited and analyzed the Company's SBA calculations by: (1) auditing actual sales; (2) confirming the SBA rate and sales used to set base rates; and (3) verifying the Company's method for calculating the SBA following the Commission's prior

orders. Staff believes the Company accurately calculated the SBA adjustment and complied with Commission orders.

9. *Qualifying Facility/PURPA Expense*. PURPA contracts are not subject to the 95%/5% sharing band but are subject to jurisdictional allocation between the Company's Idaho and Oregon customers. For the PCA deferral year, the actual Idaho jurisdictional PURPA expense was $65.3 million above the amount embedded in rates.

10. *DR Incentive Payments*. The Company's DR incentive payments are not subject to the sharing band and are wholly allocated to Idaho. Prudency of DR incentive payments will be determined in the Company's annual Demand-Side Management prudency filing currently before the Commission (Case No. IPC-E-21-04). Any DR disallowance in that case will be reflected in next year's PCA deferral balance. Staff audited the Company's actual DR incentive payments included in the 2020-2021 PCA deferral balance. Staff confirms that actual DR incentive expenses in the deferral were $4.7 million less than the amount in base rates. That difference lowers the deferral balance to be recovered from customers.

11. *EIM Participation Costs*. The Company's operation and maintenance expenses attributed to its participation in the EIM are included in the PCA deferral, in compliance with Order No. 34100. The benefits of the EIM market, such as lower energy purchase prices and increased sales volume, flow through the PCA. Including participation costs appropriately matches costs with benefits. EIM costs and benefits will be reviewed in the next general rate case when the Commission will determine which costs and benefits will be included base rates. Staff reviewed EIM participation costs and believes they are appropriately recorded and accurate. Idaho's share of the EIM expenses is $3 million, which is added to the deferral balance.

12. *Revenue from the PCA Forecast*. The Company generated $105.7 million in revenues from its PCA Forecast rates during the current PCA year. Because the forecast rate changes each June, the deferral period reflects the rates set in the two previous PCA periods. This amount lowers the overall deferral balance for the

2020-2021 deferral period. Staff verified the revenue that was collected during the PCA period.

13. *Interest on the Deferral Balance*. The deferral balance accrues interest at the Commission-approved customer deposit rate of 2% in 2020 and 1% in 2021. Staff verified the interest calculations and verified that the Company's calculation is accurate. The interest accrued during the current deferral year is $83,603, which lowers the deferral balance.

Reconciliation of the True-up (True-up of the True-up) Analysis

The reconciliation of the true-up tracks the recovery of the prior year's true-up amounts. It compares the revenue collected during the current PCA year (June 1, 2020 to May 31, 2021) from the true-up rates to the amount set in the previous year's PCA case. The difference between actual true-up rates and projected true-up rates is recovered via the reconciliation of the true-up portion of the PCA rates in the next PCA year (June 1, 2021 to May 31, 2022.)

The Company reported a $4.5 million ending balance for the reconciliation of the true-up, as shown on the line labeled "Ending True-Up of the True-Up Balance" in Blackwell's Exhibit No. 2. This year, the combined balance of the true-up and the true-up of the true-up is a credit of $17.6 million to customers. As shown in Table No. 1 above, this is $25.2 million less than the $42.9 million credited to customers last year.

Staff audited the amounts booked to the reconciliation of the true-up, verified the Company's calculations, and reviewed the method used to ensure it complies with past Commission orders. As a result of its review, Staff believes that the Company correctly reconciled the true-up. Further specifics of Staff's review are discussed below.

Table No. 3: Reconciliation of the True-Up Summary

Category	Amount
Deferral Balances	
2019-2020 True-Up Deferral Balance	-$31,869,646
2018-2019 True-Up of the True-Up Ending Balance	-10,778,801
Amount Set for Refund	-$42,648,447
Revenues	
Collections from True-Up Rates	$47,542,201
Interest	-374,140
Revenues Subtotal	$47,168,061
True-Up Reconciliation	$4,519,614

1. *2019-2020 True-up Deferral Balance*. The ending true-up deferral balance from the 2019-2020 PCA period was approved in Order No. 34682. The ending deferral balance in last year's PCA was negative $31.9 million. This amount is added to the beginning balance of the reconciliation of the true-up. Staff verified that this amount was properly recorded in April 2020 in the reconciliation of the true-up for recovery.
2. *2018-2019 Reconciliation of the True-Up Balance*. The remaining balance in the reconciliation of the true-up that was over-recovered in the previous PCA period is the beginning balance of the reconciliation of the true-up for this PCA period. This balance, $10.8 million was over-recovered in the previous period and has been properly recorded in the reconciliation of the true-up as the beginning balance.
3. *Collections from True-up Rates and Interest*. Staff reviewed and verified the collections from customers and the interest calculations. Staff has also verified that the collections and interest are accurately reflected in the reconciliation of the true-up.

Revenue Sharing

The revenue sharing mechanism, established in 2010 and last modified in Order No. 34071 in 2018, requires the Company to share revenues with customers based on its actual Idaho jurisdictional year-end Return on Equity (ROE), if it exceeds 10%. In 2020, that ROE was 9.98%, which is below the 10% threshold for revenue sharing. As a result, there is no revenue sharing benefit to customers in the next PCA year. Staff agrees with its revenue sharing calculations after reviewing the Company's workpapers, source documents, and other supporting documentation.

Rate Calculations

The Company calculated its proposed PCA rate by combining the three PCA components: forecast power cost at $0.8793 cents per kWh, the true-up at -0.1535 cents per kWh, and the reconciliation of the true-up at 0.0313 cents per kWh. The sum of these components is 0.7571 cents per kWh, which is the rate for all customer classes, and is shown in the Company's proposed Schedule 55 PCA rates.

Staff reviewed the components that make up this year's PCA rates and has concluded that they are fair, just, and reasonable. Staff's review of all the rate components included verification that rates were calculated accurately, and that the Company's methods comply with Commission orders. Staff confirmed that the revenue requirement was allocated across customer classes on an equal cents per kilowatt-hour basis, which ensures that customers share the PCA revenue requirement based on amount of energy consumed.

PCA Simplification

The Company's forecast is a substantial cause of the year-over-year variation in the PCA rate. This variation has resulted in a fluctuation of up to 14.6% in the annual charges for a typical residential customer using 800 kWh per month. IPC-E-20-21, Staff Comments at 13. Staff believes that this variation could be reduced by replacing the forecast with a constant value of 0.5446 cents per kilowatt hour and replacing the true-up and true-up of the true-up with a simple balancing account. This simplified method would not detract from the intended purpose of the PCA.

CUSTOMER NOTICE AND PRESS RELEASE

The Company included a press release and customer notice with its Application. Staff reviewed the documents and determined that both meet the requirements of Rule 125 of the Commission's Rules of Procedure. The notice was or will be included with bills mailed to customers beginning April 27 and ending May 26, 2021. Customers whose bills will be mailed on May 22, 25, and 26 were sent a direct mail postcard, mailed no later than May 21, outlining the Company's filing. Unfortunately, even with the Company's attempt to provide earlier notice to some customers, many will not have a reasonable opportunity to file timely comments with the Commission by the May 18th comment deadline.

Because the Company is proposing a rate increase, it is likely that some customers may object to the proposed rate changes. All customers should have an opportunity to file comments and have their comments considered by the Commission. Staff thus recommends the Commission accept and consider late-filed customer comments. As of May 17, 2021, the Commission had received five comments, which were all opposed to raising rates.

STAFF RECOMMENDATIONS

Staff recommends that the Commission approve the Company's update to Schedule 55, as shown in Attachment 1, effective June 1, 2021, for the period June 1, 2021 through May 31, 2022.

Respectfully submitted this 18th day of May 2021.

John R. Hammond, Jr.
Deputy Attorney General

Technical Staff: Brad Iverson-Long
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 18th DAY OF MAY 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-21-10, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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