Office of the Secretary
Service Date
May 31, 2023

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, 2023 THROUGH MAY 31, 2024	)	**CASE NO. IPC-E-23-12** **ORDER NO. 35804**

On April 14, 2023, Idaho Power Company ("Idaho Power" or "Company") applied for Commission authorization to implement its Power Cost Adjustment ("PCA") rates in Schedule 55—Power Cost Adjustment ("Schedule 55") effective June 1, 2023, through May 31, 2024. Application at 1. The Company requested its Application be processed by Modified Procedure. *Id.* at 1 & 11. If approved, the Company's PCA would increase rates for all customer classes via an overall revenue increase of approximately $200.2 million, or 14.68 percent. *Id.* at 1-2. The proposed PCA does not increase the Company's earnings. Under the Company's proposed PCA rates, an average residential customer using 950 kilowatt-hours ("kWh") of electricity would see their monthly bill increase by $12.72. *Id.* at Attachment 2.

On April 27, 2023, the Commission issued a Notice of Application and Notice of Modified Procedure establishing May 11, 2023, as the comment deadline and May 18, 2023, as the deadline for the Company's reply.

On May 11, 2023, Commission Staff ("Staff") and the Industrial Customers of Idaho Power ("ICIP") filed comments. On May 18, 2023, the Company filed reply comments.

Having reviewed the record in this case, we now issue this final Order approving the Application with modifications.

THE PCA MECHANISM

The PCA mechanism permits the Company to increase or decrease its PCA rates to reflect the Company's annual "power supply costs." Due to its diverse generation portfolio, the Company's actual cost of providing electricity (its power supply cost) varies from year to year depending on changes in such things as the 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

Company states that neither it nor its shareholders receive any financial return from the PCA – money collected from the surcharge can be used only to pay power supply expenses. *Id.* at 3.

The PCA quantifies and tracks annual differences between actual Net Power Supply Expenses ("NPSE") and the normalized or "base level" of NPSE recovered in the Company's base rates, resulting in a credit or surcharge that is updated annually on June 1. The PCA mechanism uses a 12-month test period of April through March ("PCA Year") and includes a forecast component and a Balancing Adjustment.[1] The forecast component represents the difference between the Company's NPSE forecast from the March Operating Plan and base level NPSE recovered in the Company's base rates. The Balancing Adjustment includes a backward-looking tracking of differences between the prior PCA Year's forecast and actual NPSE incurred by the Company, and also tracks the collection of the prior year's Balancing Adjustment. The Balancing Adjustment also incorporates the costs and benefits for the Company's participation in the Western Energy Imbalance Market ("EIM") for April 2022 through March 2023. *Id.* at 9.

Except for Public Utility Regulatory Policies Act of 1978 ("PURPA") expenses and demand response incentive payments, the PCA allows the Company to pass through to customers 95 percent of the annual differences in actual NPSE as compared with base level NPSE, whether positive or negative. With respect to PURPA expenses and demand response incentive payments, when actual annual expenses deviate from base level NPSE, the Company is allowed to pass 100 percent of the difference for recovery or credit through the PCA. The PCA is also the rate mechanism used by the Company to provide customer benefits resulting from the revenue sharing mechanism approved by the Commission in Order No. 34071.

THE APPLICATION

This year's PCA Application requests to increase revenue through Schedule 55 by $200.2 million for the 2023-2024 PCA year. Application at 1-2.

The Company's system-level forecast for NPSE is approximately $235 million higher in the 2023-2024 PCA year than 2022-2023 PCA year base level NPSE. *Id.* at 8. The forecast is primarily driven by higher forecast market energy and natural gas prices, combined with a limited coal supply. *Id.* at 9.

[1] In Order No. 35290, the Commission approved a modification to the PCA filing to replace the "true-up" and "true-up of the true-up" with a single balancing account. The two "true-up" rates previously included in PCA filings are now combined into one "Balancing Adjustment" rate. The Balancing Adjustment modification solely impacts the presentment of the PCA but has no material impact on the rates charged to customers.

The Balancing Adjustment at the end of March 2023, including interest, was approximately $190 million and was primarily driven by "high natural gas and market energy prices during the 2022-2023 PCA Year, combined with a limited coal supply" and 9 percent lower hydro generation than forecast. *Id*. at 9-10.

Per Order No. 34071, the Commission requires the Company to share revenue with its customers if its Idaho jurisdictional year-end return on equity ("ROE") is 10.0 percent or greater. *Id*. at 10. The Company asserts its Idaho jurisdictional year-end ROE in 2022 was 9.8, which is below the 10.0 percent ROE threshold for revenue sharing. *Id*.

The Company's uniform PCA rate for the 2023-2024 PCA Year is comprised of (1) the 1.4572 cents per kilowatt-hours ("kWh") adjustment for the 2023-2024 forecasted power cost of serving firm loads under the current PCA methodology and 95 percent sharing; and (2) 1.2714 cents per kWh for the 2022-2023 Balancing Adjustment. *Id*. Together, these components total approximately 2.7286 cents per kWh charge for all rate classes. *Id*.

On March 15, 2023, the Company filed its annual Fixed Cost Adjustment ("FCA") in Case No. IPC-E-23-09. *Id*. The Company's 2023 FCA filing proposes a $10.0 million decrease in current billed revenue, or a 1.56 percent decrease for Idaho Residential and Small General Service customers, effective June 1, 2023, through May 31, 2024. *Id*. at 11.

Here, the Company's proposed PCA does not increase the Company's earnings. Under the Company's proposed PCA rates, an average residential customer using 950 kWh of electricity would see their monthly bill increase by $12.72. *Id*. at Attachment 2. If the PCA and FCA Applications are approved as filed, the combined impact is an overall increase in current billed revenue of $190.2 million, or 13.94 percent. *Id*. If this occurs the average residential customer's monthly bill would increase by $11.06. *Id*.

Proposed 2023-2024 Revenue Impact by Class:
Percentage Increase from Current Billed Rates by Proposed Change

Power Cost Adjustment

Residential	Small General Service	Large General Service	Large Power	Irrigation
11.90%	**9.70%**	**16.19%**	**20.26%**	**15.01%**

Fixed Cost Adjustment

Residential	Small General Service	Large General Service	Large Power	Irrigation
-1.56%	**-1.63[2]%**	**N/A**	**N/A**	**N/A**

Total Combined Impact

Residential	Small General Service	Large General Service	Large Power	Irrigation
10.34%	**8.08%**	**16.19%**	**20.26%**	**15.01%**

See Application at Attachment 2; April 20, 2023 Errata to Case No. IPC-E-23-09 Application.

COMMENTS

I. Staff

Staff reviewed the Company's Application, direct testimony and workpapers of Company witness Jessica G. Brady, audit of sampled transactions and responses to production requests. Staff Comments at 3. Staff examined sales and expenses for the 2022-2023 PCA year, forecasting methods, projected revenues, and upcoming 2023-2024 PCA year expenses. *Id*. Staff recommended the Commission approve the Application with modifications. *Id*. at 3-4.

First, Staff believed that the Company's forecast for the upcoming PCA year (2023-2024) of electricity sales, loads, fuel consumption, fuel costs, and purchased power costs were reasonable. *Id*. at 3. Second, Staff requested that the Company notify the Commission if the forecast materially deviates; and, if so, recommended the Company make an off-cycle filing. *Id*. Third, Staff believed that last year's PCA balancing adjustment was reasonable but had concerns with the NPSE prudency. *Id*. Fourth, Staff requested the opportunity to investigate the NPSE's prudency, specifically the reasons for the coal supply shortage, and to provide the Commission with a report within six months of the Commission's final order. *Id*. at 4. Staff suggested the Company's actual NPSE be used to calculate the PCA deferral and Schedule 55 rates, pending the

[2] In Case No. IPC-E-23-09 (FCA), the Company's April 20, 2023, Errata to Application and Direct Testimony of Pawel P. Goralski, explained the minor variance between its FCA and PCA was due to the "incorrect assignment of sales between the Idaho and Oregon jurisdictions. *Errata to Application and Direct testimony of Pawel P. Goralski*, filed April 20, 2023, Case No. IPC-E-23-09. For clarity, the Company filed revised versions of Exhibits Nos. 5 and 6 filed with the Goralski Testimony for Case No. IPC-E-23-09.

prudency determination. *Id*. Fifth, following the NPSE prudency investigation, Staff asked the Commission to reserve the right to adjust the NPSE recovery if the Company's coal supply management was not prudent. *Id*. Sixth, Staff requested notification of any outcome on the Hells Canyon Unit No. 3 damage claim. *Id*. Seventh, Staff requested the Commission accept late-filed comments by customers. *Id*.

Staff's Forecast Analysis

Staff believed the 2023-2024 forecast was "reasonable and any over- or under-collected amounts due to forecast variance will be trued-up in the following year." *Id*. at 5.

Balancing Account

The Company's Balancing Account Summary includes (1) the Beginning Balance; (2) 2022-2023 Incremental Deferral; (3) 2022-2023 Forecast Revenues Collections; (4) Revenue Sharing; and (5) Current Month Interest. *Id*. at 6. The Company's incremental deferral balance of $343 million includes "(1) the expense difference between the actual NPSE from April 1, 2022, to March 31, 2023, and NPSE recovered through base rates; and (2) other PCA expenses." *Id*. Staff analyzed the deferral components, and agreed the Company's calculations were accurate and consistent with Commission precedent. *Id*.

NPSE

The Company's NPSE was "extraordinarily high" due to a "lack of coal supply needed to run the Company's coal plants[.]" *Id*. Due to concerns over whether the Company promptly and appropriately to mitigate these high costs, Staff requested the Commission allow an investigation of the NPSE prudency, and recommended a report be provided to the Commission within six months of the Commission's final order. *Id*. at 7; 9-10. In the interim, Staff proposed the Commission use the Company's actual NPSE to calculate the PCA deferral and Schedule 55 rates while the prudency investigation is pending; the Commission could reserve the right to adjust the NPSE recovery if the Commission finds the Company's coal supply management was not prudent. *Id*.

Hells Canyon Unit No. 3 Downtime

The Company's Hells Canyon Unit No. 3 required repairs, and the Company is pursuing a claim against the repair contractor. *Id*. at 11. Staff thought the Company acted prudently in managing the repairs to Hells Canyon Unit No. 3, and Staff requested an update from the Company when its claim against the contractor is resolved. *Id*.

Other PCA Expenses

Staff reviewed the "(1) Idaho Jurisdictional Qualifying Facility ("QF") and PURPA Expense Deferral; (2) the Idaho Revenue Adjustment from the Sales Based Adjustment ("SBA") Rate; (3) the difference between actual DR incentive payments and amounts recovered in base rates; (4) the Actual Renewable Energy Credit ("REC") revenues; and (5) Idaho Power Energy Imbalance market ("EIM") Participation Costs. *Id*. Staff agreed with the Company's calculation of these other PCA expenses." *Id*. at 11.

Overall Impact of Filings Effective June 1, 2023

Staff stated that "if the PCA and FCA applications are approved as filed, the combined impact is an overall increase in current billed revenue of $190.2 million, or 13.94 percent." *Id*. at 14.

II. Public Comments

Most customers submitted comments objecting to the PCA due to personal, financial constraints such as living on a fixed income. Some customers argued the request had not been justified and the Company should focus on hydroelectric power and plan on purchasing larger quantities of coal and natural gas when those resources are at lower prices.

III. ICIP Public Comments

On May 11, 2023, ICIP filed public comments through its counsel, Peter J. Richardson. ICIP opposed the PCA as unprecedented, excessive, and disproportionately burdensome for industrial and special contract customers. ICIP May 11, 2023, Comments at 2-4. ICIP argued the PCA "will punish the industrial and special contract customers with a proposed <u>twenty-plus percentage rate increase</u> while poor load factor customers are rewarded with lower-than-average percentage increases of less than the overall average of fourteen percent." *Id*. at 3-4. If the PCA is accepted, ICIP urged the Commission to implement rate mitigation measures and disagreed with the Commission's consistent rejection of the same. *Id*. at 4-6. ICIP requested the PCA be "recovered over three years with an equal annual percentage increase or even over two years with an equal annual percentage increase" and asserted its customers would benefit from mitigating the PCA's impact. *Id*. at 7.

IV. Company's Reply

The Company submitted its reply with confidential attachment 1 and attachments 2-5. The Company agreed with Staff's conclusions on the calculation of the PCA components and its use of current approved methodology. Company Reply at 3. The Company agreed to share the outcome of its claim for liquidated damages for Hells Canyon Unit No. 3. *Id*.

The Company disputed the claim that it waited until September 2022 to take proactive measures, and asserted it prudently managed the coal supply issues by taking immediate steps to procure additional coal in April 2022 when it became aware of the situation. *Id*. at 5. Second, while the Company's efforts were unsuccessful, the Company needed to exhaust reasonable efforts to procure additional coal before taking the hedging transactions suggested by Staff. *Id*. The Company argued price escalation and volatility in the natural gas and energy markets, global natural gas supply and demand disruption, poor hydrological conditions, and ramped down coal production all contributed to the coal supply issues. *Id*. at 5-6. The Company described efforts to secure additional coal at Bridger in April of 2022 and its negotiations with Black Butte Coal Company in May of 2022, and stated it followed risk guidelines in the Company's Energy Risk Management Standards on hedging transactions. *Id*. at 6-7. The Company asserted the record supports it acted prudently under the circumstances but did not oppose Staff's recommendation to continue to investigate the factors leading to the Company's limited coal supply. *Id*. at 3 & 8.

The Company disagreed with ICIP's comments and argued that the PCA mechanism and its costs are "appropriately assigned based on kWh usage, reflecting the fair assignment of costs rather than a 'punishment' of high load factor customers." *Id*. at 8. The Company was also not opposed to rate mitigation measures and shared concerns about compounding the impact to customers. *Id*. at 8-9.

COMMISSION 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, the public comments, which included ICIP public comments, comments of Staff, and the Company's reply, we find it fair, just, and reasonable to grant the Company's Application with the modifications discussed below.

After reviewing the record in this case we find it fair just and reasonable to grant Idaho Power's Application to increase its PCA rates for the 2023-2024 PCA year as modified by this

Order. The Commission also finds the PCA balancing adjustment is reasonable. The Commission also finds that the Company shall notify the Commission of any outcome of its Hells Canyon Unit No. 3 damage claim.

Because this year's PCA was significantly affected by coal supply issues and the limited time available to perform a full review of the prudency of the NPSE, the Commission finds it reasonable to further investigate. The Commission directs Staff to investigate the NPSE prudency and report its assessment to the Commission within six months of the Commission's final order. Pending this investigation, the Commission approves the use of the Company's actual NPSE to calculate the PCA deferral and Schedule 55 rates. The Commission reserves the right to adjust the NPSE recovery, if the Commission determines the Company's coal supply management was not prudent.

ICIP has requested that the Commission adopt a two- or three-year deferral of recovery of this PCA year's high balance. Rate mitigation is an option to shield customers from a large rate increase. Generally, the Commission strives to match costs to the period of time when they were incurred. Further, deferring recovery of PCA costs can cause "rate pancaking" where deferring the costs for this year's PCA results in an even larger subsequent increase. It cannot be known with absolute certainty what factors may, and to what extent, these factors impact the next year's PCA. However, due to a variety of factors, including but not limited to, general rate cases that have been filed by this and other utilities, higher electricity, natural gas and water costs and inflation, utility customers in Idaho have recently seen their bills for all utility services increase. Due to these factors and others, we find it fair, just and reasonable to spread the cost recovery of this year's PCA balance equally over a two-year period to mitigate rate impacts on the Company's customers. As noted, this approach is not without risk and as a result the Commission directs the Company to keep it informed about any large changes to the PCA deferral balance.

We accept and have considered the late-filed customer comments, along with those timely filed. This Commission is sensitive to economic conditions affecting ratepayers throughout Idaho. We strive to balance the ratepayer's need for affordable energy with the Company's mandate to provide reliable electric service. While some commenters believe that the Company is directly profiting from all increasing rates, it is not the case here. Money collected from the PCA surcharge reflects actual power supply expenses incurred by the Company.

In conclusion, the Commission finds that the rates proposed by the Company are sufficient to recover the deferred net power costs during the 2022-2023 deferral year. However, due to extraordinary circumstances leading to high net power costs, we find it fair, just, and reasonable to approve the Company's Application but with modifications so that the PCA deferral balance is recovered equally over two years. We find that the two-year rate plan fairly mitigates the conditions present during the deferral year. We direct the Company to file a new Schedule 55 in conformance with the Commission's findings herein, with the new rates to take effect June 1, 2023.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved with modifications. The Commission finds it reasonable to spread the cost recovery of this PCA year's deferral balance equally over a two-year period beginning from June 1, 2023.

IT IS FURTHER ORDERED that the Company shall provide conforming Schedule 55 tariffs reflecting the two-year rate plan for rates to become effective on June 1, 2023.

IT IS FURTHER ORDERED that the Company is directed to notify the Commission of any outcome on the Hells Canyon Unit No. 3 damage claim.

IT IS FURTHER ORDERED that the Commission finds the Company's PCA balancing adjustment was reasonable. The Commission orders an investigation of the prudence of the NPSE and Staff will report its assessment to the Commission within six months of the Commission's final order. The Commission approves the use of the Company's actual NPSE to calculate the PCA deferral and Schedule 55 rates and reserves the right to adjust the NPSE recovery if the Commission determines the Company's coal supply management was not prudent.

IT IS FURTHER ORDERED that the Commission will accept late-filed comments.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date upon this Order regarding 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 31st day of May 2023.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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