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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN)
POWER'S APPLICATION REQUESTING) **CASE NO. PAC-E-20-02**
APPROVAL OF \$21.2 MILLION NET POWER)
COST DEFERRAL)
)
) **COMMENTS OF THE**
) **COMMISSION STAFF**
)
)

)

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On April 1, 2020, PacifiCorp dba Rocky Mountain Power (“Company”) applied to the Commission for an order authorizing the Company to adjust its rates under the Energy Cost Adjustment Mechanism (“ECAM”). If approved, the Company’s ECAM adjustment would collect \$21.2 million from its Idaho customers between June 1, 2020 and May 31, 2021. The Company requested that its Application be processed by Modified Procedure and have an effective date of June 1, 2020.

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.” Each month, the Company compares the

actual system NPC to the NPC embedded in base rates and defers the difference into the ECAM balancing account. The ECAM also includes the Load Change Adjustment Revenues (“LCAR”)¹, and an adjustment for the treatment of coal stripping under the Emerging Issues Task Force. *Id.* Under the ECAM’s 90/10 symmetrical sharing band, 90% of the above costs are allocated to customers and 10% are allocated to the Company. The following are not subject to the 90/10 sharing band, but are included in the ECAM: a true-up of Renewable Energy Credit (“REC”) revenues, the Production Tax Credit (“PTC”), the Lake Side 2 generation resource adder, and a Resource Tracking Mechanism (“RTM”).

The deferral amount includes a difference of about \$13.5 million between actual NPC and the NPC included in base rates.² It also includes LCAR credits of about \$800,000 and expenses related to the accounting treatment of coal-stripping costs of about \$115,000.³

The deferral amount also includes about \$4.5 million associated with the Lake Side 2 resource adder, about \$4.7 million for the difference between actual PTC and those included in base rates, and \$500,000 for the RTM. In addition, it includes about \$32,000 in credit for the difference between actual REC revenue and that included in base rates.

For the second year, the ECAM includes three additional components related to the Tax Reform Act as agreed to in the Tax Stipulation.⁴ These tax reform credits offset the ECAM deferral by about \$3.1 million. Direct Testimony of Steven McDougal at 5. This amount includes about \$570,000 in tax savings related to the reduction of the federal income tax that were not refunded to customers under Schedule 197, about \$2.3 million in 2019 protected property excess deferred income taxes (“EDIT”), and about \$2.1 million in non-protected and non-property EDIT.⁵ These ECAM tax reform credits are partially reduced by about \$1.9 million in 2013 incremental depreciation expense assigned to the ECAM.

In summary, the Company requests approval of \$21.1 million in 2019 deferred costs, plus about \$500,000 in interest on the existing deferral balance. The balance will be reduced by the \$100,000 credit balance in the depreciation deferred balance and by about \$4.9 million from

¹ The LCAR accounts account for the over- or under-collection of the Company’s energy-related production revenue requirement (excluding net power costs) due to variations in Idaho load.

² This figure is not adjusted for the 90/10 sharing band. After adjustment, the NPC deferral is \$11.5 million.

³ These figures are not adjusted for the 90/10 sharing band.

⁴ See Order No. 34331.

⁵ See Table 1 on page 5 of Steven R. McDougal’s direct testimony included with the Rocky Mountain Power’s Application.

Schedule 94 (Energy Cost Adjustment) revenue collections, less interest accrued, during the first 5 months of 2020.

STAFF REVIEW

Deferral analysis

Staff believes the Company's methodology complies with previous Commission orders. Staff further believes that the Company used accurate actual loads, prudently incurred actual costs and revenues, and applied the correct loads, costs, and revenues embedded in base rates. Thus, Staff believes the Company's ECAM deferral balance properly accounts for the difference between energy costs and revenues in base rates and the actual costs and revenues it prudently incurred in 2019. The table below summarizes the ECAM deferral the Company can recover from customers.

Table No. 1: Summary of 2019 ECAM Deferral

	<u>Idaho Customers</u>
NPC Differential	\$ 13,470,193
EITF 04-6 Adjustment	\$ 115,324
LCAR	<u>\$ (829,632)</u>
Total Deferral Before Sharing	\$ 12,755,886
Sharing Band	<u>90%</u>
Customer Responsibility	\$ 11,480,297
Production Tax Credit Deferral	\$ 4,717,273
REC Deferral	\$ (31,947)
Lake Side 2 Resource Adder	\$ 4,540,985
RTM Adjustment	\$ 452,488
Interest on Deferral ⁶	\$ 462,786
Annual Deferral (Jan - Dec 2019)	<u><u>\$ 21,621,882</u></u>

Staff reviewed the Company's external audit reports, journal entries, invoices, contracts, and bills to customers. Staff also reviewed the Company's adjustments to its actual costs. Staff reconciled the general ledger amounts to the NPC provided in Company Exhibit No. 1. Staff also reviewed the Company's hedge contracts and policies and believes they reasonably safeguard price and fuel stability. Staff also reviewed transactions and invoices for Energy

⁶ The inclusion of Interest on Deferral causes the Actual Deferral (Jan-Dec 2019) figure to differ from the Company's figure of \$21.2 million in its Application."

Imbalance Market revenues. Staff reviewed the RTM adjustment calculations, which are included in the ECAM for the first time in 2019. Staff concluded that the ECAM deferral in Company Exhibit No. 1 is accurate and complies with ECAM orders.⁷

NPC Deferral

The NPC adjustment within the ECAM allows the Company to collect or credit the difference between actual NPC incurred to serve customers in Idaho and the NPC collected from Idaho customers through base rates. Staff believes that the calculations and methodology the Company used to determine the NPC deferral meet the intent of the ECAM and Commission orders and the deferral is calculated correctly.

For the 2019 deferral year, the NPC embedded in base rates is \$26.90 per MWh.⁸ The revenue collected through base rates is calculated by multiplying \$26.90 by 3,477,838 MWh of actual Idaho sales, for a total of \$93.5 million. The difference between base rate revenue and Idaho's share of actual 2019 NPC of \$107 million, is an under-collected balance of \$13.5 million. The under-collected balance is subject to a 90/10 customer sharing band, with the Company paying 10% of the NPC balance. After removing that 10%, the amount to be collected through Schedule 94 rates is \$12.1 million.

EITF 04-6

The EITF 04-6 adjustment is the difference between coal stripping costs the Company incurred and recorded as stated in the accounting pronouncement EITF 04-6 and the amortization the Commission approved by Order No. 30987 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 open mines. This adjustment increases the deferral by \$115,324. Staff reviewed this adjustment and believes it is accurately calculated.

⁷ Some of Staff's audit work was curtailed due to travel restrictions related to the COVID-19 pandemic. Staff was not able to review the Company's internal audit reports and had less contact with the Company's employees than in other years. These limitations do not materially affect Staff's assertions.

⁸ This value was last adjusted by Order No. 33668 in Case No. PAC-E-16-12.

Load Change Adjustment Revenues

Staff believes the Company's LCAR adjustment complies with Order No. 33440. The LCAR adjusts for the under- or over-recovery of fixed energy-classified production cost (excluding NPC) as a result of the difference between sales used to determine base rates and the Idaho sales from the deferral year.

The LCAR in this ECAM of \$5.54 per MWh was set in Case No. PAC-E-16-12 and adjusted due to changes in the corporate tax rate in GNR-U-18-01. Multiplying the LCAR by actual Idaho sales of 3,477,838 MWh shows that the Company collected \$19.3 million of energy-classified fixed production cost through base rates. That amount in base rates is greater than the actual amount of energy-classified fixed production cost, \$18.4 million, so customers receive a benefit of \$829,632.

Production Tax Credit

The Commission approved a settlement in Case No. PAC-E-15-09 that moved the PTC true-up to the ECAM, with a \$1.99 per MWh benefit to customers included in base rates. In 2019, base rates included a \$6.9 million benefit from PTCs. However, the Company's actual PTCs in 2019 allocated \$2.2 million to Idaho customers. The \$4.7 million difference between the PTCs in rates and actual PTCs is added to the ECAM deferral balance the Company can collect from customers.

Renewable Energy Credit

In Case No. PAC-E-16-12, the Commission approved a \$0.09 per MWh benefit to customers for RECs be included in base rates. The difference between the embedded amount and actual REC revenue is trued-up yearly in the ECAM. In 2019, base rates included a \$312,110 benefit from RECs, while Idaho's share of the Company's actual REC revenues was \$344,057. The difference of \$31,947 is subtracted from the ECAM deferral balance.

Lake Side 2 Resource Adder

In Order No. 32910, the Commission approved a settlement that allows the Company to recover its investment in the Lake Side 2 generation facility through the ECAM until its investment is included in base rates in a future rate case. The resource adder allows the

Company to recover \$1.99 per MWh of generation at Lake Side 2, up to \$5.43 million per year. In 2019, the Company generated 2,281,902 MWh at Lake Side 2 which adds \$4,540,985 to the deferral balance.

RTM Adjustment

In Order No. 33954, the Commission approved a settlement allowing the Company to recover costs⁹ related to wind repowering projects through the ECAM. In 2019, nine of these repowering projects were placed in service and generated electricity. The RTM adjustment properly reflects costs that offset repowering projects' benefits to customers found elsewhere in the ECAM, PTC benefits, and NPC benefits. The benefits to customers for the nine repowering projects in 2019 were \$981,645. Based on the terms of the RTM settlement, the net revenue requirement benefit to customers is \$529,156. The \$452,488 difference between those two amounts, is added to the deferral balance.

Tax Savings

The Commission approved a settlement in Order No. 34331 passing certain savings from the 2017 federal tax cuts through the ECAM. Staff reviewed the Application and Exhibits and found the Company generally complies with that settlement. A \$3.1 million offset to rates is shown in Exhibit 2 of Company witness Robert M. Meredith's testimony, in column "Tax Rev. The components of this \$3.1 million are listed in Table 1 of Company witness Steven R. McDougal's testimony.

The Company said that it is changing its amortization for part of the tax savings flowing through the ECAM. For its Protected EDIT, the Company determined it will switch from the Average Rate Assumption Method for amortizing its protected EDIT to the Reverse South Georgia Method. However, the Company did not account for this change in amortization treatment in this year's ECAM, opting to follow the Stipulation and adjust its Protected EDIT balance, along with other unamortized EDIT balances, in its planned upcoming general rate case. Direct Testimony of Steven McDougal at 7. Staff accepts this proposed treatment from the

⁹ Costs the Company is recovering through the RTM include return on rate base, operation & maintenance expense, depreciation expense, property taxes, and Wyoming wind taxes.

Company. While adjusting the Protected EDIT amortization would decrease the requested ECAM increase, a rate case would allow all interested parties to assess the Company’s tax savings and embed them in rates on an ongoing basis.

NPC Analysis

Staff analyzed the Company’s NPC to: (1) understand the increase in the ECAM deferral due to the magnitude of base-to-actual differences from energy sources that the Company used to meet system load and to sell energy into the wholesale market; and (2) provide a recommendation on prudence for actual net power cost incurred by the Company. Based on its analysis, Staff concludes that 94% of the difference driving the \$167 million increase in system NPC was due to a reduction in wholesale sales. In addition, Staff believes the Company prudently dispatched its resources, purchased power from the wholesale market, and sold generation into the market to minimize NPC to customers, recognizing market and weather conditions that occurred during the 2019 ECAM year.

Table No. 2: System Base-to-Actual NPC Comparison

Source	Adjusted Actual	Base NPC	Base-to-Actual Difference	Total System Base-to-Actual Difference
Wholesale Sales (revenue)	(177,804,177)	(334,520,634)	156,716,457 ¹⁰	94%
Purchased Power / Net Interchange (cost)	695,596,498	604,861,777	90,734,721	54%
Coal (cost)	697,701,913	780,404,471	(82,702,558)	-49%
Gas (cost)	286,877,108	284,737,063	2,140,045	1.3%
Other - Primarily Wind (cost)	150,153,458	149,965,098	188,360	0.1%
Total System	1,652,524,800	1,485,447,775	167,077,025	

For the first objective, as illustrated in Table No. 2 above, the base-to-actual difference in system NPC is approximately \$167 million for the ECAM year. Given Idaho’s consumption

¹⁰ The positive amount for the wholesale sales base-to-actual difference represents a reduction in revenue from the total actual amount of sales relative to the base amounts; whereas positive amounts for base-to-actual cost components represent increases in actual cost as compared to base amounts.

during the ECAM year was about 8% of the total system, this accounts for approximately \$13.5 million of the increase in Schedule 94 rates. The table also shows the percentage of each source's contribution to total system base-to-actual differences.

By far, the largest contributing factor to the increase in actual NPC as compared to base rate NPC is the reduction in revenue from wholesale sales. This single factor accounts for 94% of the \$167 million increase in the base-to-actual difference. Staff believes the reduction in sales was due to the Company using its own resources to meet customer load instead of using them to generate revenue from outside sales. Although there was only a slight increase in customer load, the amount of generation from the Company's resources were much lower than what was assumed in base rates. As can be seen in Table No. 3 below, Wind and Hydro generation, both zero fuel cost must-run resources, were 31% and 26%, respectively, below generation assumed in base rates. In addition, the amount of energy from purchases and PacifiCorp's fueled resources were also reduced, both of which can be explained by higher electricity prices (27% higher) and higher fuel cost (1.3% higher for coal and 3.2% higher for gas).

Table No. 3: Base-to-Actual Differences in Unit Cost and Generation

Source	MWh Change	MWh % Change	\$/MWh Change	\$/MWh % change
Purchased Power / Net Interchange	-1,359,566	-9.5%	\$11.41	27%
Coal	-4,587,132	-12%	\$0.26	1.3%
Gas	-290,769	-2.4%	\$0.73	3.2%
Hydro	-975,070	-26%	n/a	n/a
Other (Primarily Wind)	-1,053,964	-31%	n/a	n/a

For the second objective, Staff based its conclusion on a high-level system analysis, comparing the difference between actual NPC and generation amounts during the 2019 deferral year to the amounts used to determine NPC embedded in base rates. Although this analysis does not examine the prudence of individual transactions, it does indicate how economically the Company dispatched its available resources as a system by looking at the overall results. A summary of this analysis is provided in Table No. 3, above.

From the analysis, Staff notes the major drivers affecting NPC were: (1) higher purchased power and natural gas prices; and (2) lower hydro and wind generation. Generally, without examining availability of resources, Staff expects that for each source, the amount of energy

should increase if the unit cost decreases. Conversely, Staff expects the amount of energy to decrease if the unit cost increases. Expectedly, the analysis shows whenever the unit cost increased, the amount of energy from each corresponding source was lower.

Purchased power price increased by 27% and natural gas price increased by 3.2%. Higher gas prices increased the Company's cost of natural gas generation and put upward pressure on wholesale market prices, which resulted in the Company appropriately purchasing 9.5% less electricity from the market. The Enbridge natural gas pipeline rupture had a minor effect on gas and market prices during the ECAM year. The rupture occurred in October 2018 and increased natural gas and electricity prices going into 2019.

Hydro generation decreased by 26% and wind generation decreased by 31%. Any reduction in hydro and wind generation requires the Company to make additional market purchases and/or dispatch the Company's other fueled resources that operate at a higher cost. The reduction in generation from wind was mostly caused by the nine wind repowering projects that were completed in 2019. Staff expects wind generation to increase next year driving down overall NPC since the repowered wind projects should have increased generation capacity.

Proposed Rates

Staff verified that the rates in the Company's proposed Schedule 94, Energy Cost Adjustment, are calculated using the methodology approved in Order No. 33440. The proposed rates in Schedule 94 are voltage-level specific: 0.571 cents per kWh for secondary service, 0.549 cents per kWh for primary service, and 0.532 cents per kWh for transmission service. The Company's revised rates are included with the Application as Exhibit 2 of Meredith's testimony. The Company's proposed Schedule 94 is included with the Application as Exhibit 3 of Meredith's testimony.

The Company's proposed revision to Schedule 94 increases Company revenue by approximately 3%. However, revenue increases to specific classes will vary because of differences in rate design among the classes. The overall revenue increase for residential customers is 2.3%. A typical residential customer using an average of 801 kWh per month would pay \$2.04 more per month under the proposed rates.

CUSTOMER NOTICE, PRESS RELEASE AND PUBLIC COMMENTS

The Company included a press release and customer notice with its Application. Staff reviewed them and found they comply with Rule 125 of the Commission's Rules of Procedure. IDAPA 31.01.01.125. The Company included its notice with bills mailed to customers, which provided customers with a reasonable opportunity to file comments by the May 14, 2020 comment deadline. As of May 14, 2020, two customers filed comments questioning the reasonableness of the increase in rates at this time.

STAFF RECOMMENDATIONS

Staff recommends the Commission:

1. Approve the Company's Application as filed, with rates effective June 1, 2020.
2. Direct the Company to submit tariffs that reflect Commission-approved rates.

Respectfully submitted this *14th* day of May 2020.



Dayn Hardie
Deputy Attorney General

Technical Staff: Brad Iverson-Long
Bentley Erdwurm
Michael Eldred

i:umisc/comments/pace20.02dhblbeme comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14th DAY OF MAY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-20-02, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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