# DECISION MEMORANDUM

**TO:** **COMMISSIONER KJELLANDER**
**COMMISSIONER SMITH**
**COMMISSIONER HANSEN**
**COMMISSION SECRETARY**
**COMMISSION STAFF**

**FROM:** **DON HOWELL**

**DATE:** **MAY 21, 2004**

**RE:** **IDAHO POWER'S PCA APPLICATION, CASE NO. IPC-E-04-9**

On April 15, 2004, Idaho Power filed its annual PCA Application. The Company's PCA Application contained two recommendations. First, the Company requested that the existing PCA rates that were scheduled to expire on May 16, 2004 be extended until May 31, 2004. Second, the Company proposed to continue the current PCA rates for the 2004-2005 PCA year except for the anticipated "credit" decreases in PCA rates for Schedule 7 (small general service), Schedule 19 (industrial service), and Schedule 24 (irrigation) customers.

In Order No. 29478 issued April 22, 2004, the Commission approved Idaho Power's request to continue the current PCA rate through May 31, 2004. Order No. 29478 also solicited public comment regarding Idaho Power's proposal to continue the existing PCA rates for another year with the exception of the three classes noted above. Interested persons were required to file comments with the Commission no later than May 14, 2004. On April 28, 2004, the Commission granted intervention to Micron Technology.

## THE PCA APPLICATION

In this year's PCA Application, Idaho Power forecasts inflows at Brownlee Reservoir at approximately 3.13 million acre feet (maf). This is approximately 50% below the 30-year average of 6.3 maf. Based upon the projected water flow and replacement power costs, the Company calculated that the projected power supply costs for the 2004-2005 PCA year are $129,823,425. This equals 1.0092¢ per kWh. The projected power cost is 0.2777¢ per kWh higher than the Commission's approved base of 0.7315¢ per kWh. Consequently, the Company proposes to collect 0.2499¢ per kWh (90% of 0.2777¢).

The Company also calculated that the difference between last year's forecasted costs and the actual costs (the true-up) is 0.3661¢ per kWh. Finally, the third PCA rate element is the new "true-up of the true-up." Last year Idaho Power collected all but $556,693 of the deferral balance. Dividing this amount by the 2003 Idaho jurisdictional sales of approximately 12,096,872 MWh results in a PCA true-up of the true-up rate element of 0.0046¢ per kWh. Combining the projected power cost of 0.2499¢, the true-up component of 0.3661¢ and the true-up of the true-up of 0.0046¢, results in a total PCA rate for the 2004-2005 PCA year of 0.6206¢ per kWh. If approved, this would be an increase of 0.0167¢ above the existing PCA rate of 0.6039¢ per kWh.

Although the Company determined that the 2004-2005 calculated PCA rate could slightly increase, customers in Schedules 7, 19 and 24 would experience a decrease in existing rates. As the Commission is aware, last year's PCA included recovery of the deferred cost from prior years for these three customer classes. Elimination of all but a small portion of prior year deferral recovery means that their PCA rates should decrease.

Because the Company anticipates that a general rate case will result in an increase in the Company's base rates, Idaho Power requested that the Commission "keep the overall PCA rate at the same level as last year (0.6039¢ per kWh)." App. at 5. Idaho Power proposed this "unique rate treatment" to avoid the adverse consequences for most customers of having both their base rates and PCA rates increase in 2004. Consequently, the Company is proposing that the current PCA rate schedule remain the same except for the proposed decreases for Schedules 7, 19 and 24 customers. The table below shows the Company's proposed PCA rates.

| Customer Group | Current PCA | Proposed PCA | Overall Energy Rate (with Current PCA)* | Overall Energy Rate (with Proposed PCA)* | Overall % Decrease |
|---|---|---|---|---|---|
| Residential (1) | 0.6039 | 0.6039 | 5.778 | 5.778 | 0% |
| Small Commercial (7) | 0.8447 | 0.5850 | 7.179 | 6.916 | -3.66% |
| Large Commercial (9) | 0.6039 | 0.6039 | 4.176 | 4.176 | 0% |
| Industrial (19) | 0.8217 | 0.5817 | 3.604 | 3.364 | -6.66% |
| Irrigation (24) | 1.3159 | 0.5228 | 5.035 | 4.242 | -15.75% |

*All prices shown in cents per kWh. The "Overall Energy Rate" is the current effective energy rate including both the base rate and PCA rate. As indicated in the text, the Company anticipates that the base rate will increase as a result of the current general rate case.

## THE COMMENTS

In response to the Commission's Notice of Modified Procedure, the Commission received comments from the Commission Staff and one customer. On May 18, 2004, Idaho Power filed a Reply to the Staff's Comments. The one customer stated that there should not be a PCA increase this year but also argued that there should be a rate reduction for all customers. The Staff Comments and Reply Comments are discussed in greater detail below.

### *A. Staff Comments*

The Staff's Comments reviewed the Company's PCA calculations and contained two other recommendations. In general, the Staff recommended that the Commission adopt the Company's proposal to continue current PCA rates but adjust the PCA credits for the Schedules 7, 19 and 24 customers as discussed below.

1. Reviewing the Calculations. First, the Staff examined the Company's calculations regarding the three PCA elements. The Staff confirmed the Company's forecast calculation to be 0.2499¢/kWh. The Staff next reviewed Idaho Power's calculation of the PCA true-up. The Staff agreed that Idaho Power under-collected power supply costs by $44,285,289. The true-up rate component for the PCA was calculated by both the Staff and the Company to be 0.3661¢/kWh. The Staff also agreed with the Company's calculation regarding the true-up of the true-up. Including the appropriate carrying charge, the Staff and Company calculated that last year's PCA rates under-recovered the true-up amount by $556,693. This results in a true-up of the true-up component of 0.0046¢/kWh.

The sum of these three components listed above produces a calculated PCA rate of 0.6206¢/kWh. (0.2499 + 0.3661 + 0.0046). Staff Comments at 3. The Staff agreed with the Company that customers in Schedules 7, 19 and 24 are entitled to a credit as a result of last year's stipulation. Staff Comments at 3, Atch. C, ll. 16-18. The Staff also agreed with the Company's proposal to continue the existing PCA rate.

2. Adjusting the Credits. In Order No. 29478 the Commission granted the Company's request to continue the existing PCA rates for two weeks until May 31, 2004. Continuing the existing rate for two weeks would allow the new PCA rates to become effective at the same time that the Company's base rates are to become effective on June 1, 2004. By continuing the existing rates for this two-week period, PCA costs for customers in the three schedules (7, 19 and 24) will be over-collected. Staff estimates the total amount of over-

collection for this two-week period to be $605,689. Staff Comments at 4, Attachment C, column b, lines 22-24. This "over-collection" will not be captured in the true-up of the true-up. Consequently, Staff recommended slightly greater decreases (more credits) for customers in these three schedules.

2. Valmy Investigation. During the Staff's PCA audit, it became aware that a significant amount of power purchased last year was attributable to an unexpected outage at Valmy's Unit 2. Valmy is jointly owned by Idaho Power and Sierra Pacific but is operated by Sierra Pacific. After the Valmy unit was taken off-line for routine maintenance, Company personnel modified the control wiring which defeated specifically engineered protections intended to prevent accidental energization of the generator. After the maintenance repairs were completed, the unit was energized without reconnecting the generator breaker control wiring. The generator sustained severe damage in excess of $2.5 million. The accident caused the generator unit to be out of service from June 26 through September 8, 2002. Because of the outage, Idaho Power was required to purchase replacement power at rates significantly higher than the variable costs for Valmy. As outlined in the Staff's Comments and the Company's confidential audit report at Attachment F, the incident was caused by an apparent failure to follow established safety procedures, a lack of proper supervision and training, and poor communications between project personnel.

According to the Staff, the outage forced Idaho Power to purchase approximately 133.5 MW every hour, or forego additional power sales between June 26 and September 9. In response to a Staff production request, the Company estimated that it spent approximately $6.9 million for Valmy replacement power. However, Staff stated that this estimate was arrived simply using the average daily Mid-C index price during the relevant period. The Company's estimate was not based on the actual price it paid for term purchases, running Danskin, or real-time purchases used to replace Valmy power. Staff contended that the PCA was established to adjust for changes in water conditions and variable energy market prices, but was not intended to "automatically flow through costs associated with this type of event. Absent the PCA, these costs would not even be considered without special application from the Company." Staff Comments at 8. The Staff recommended that the Commission initiate an investigation to determine whether the costs for the Valmy replacement power should be calculated and credited to next year's PCA.

In summary, The Staff recommended that the existing PCA rates be continued except for the credits due Schedules 7, 19 and 24. The Staff recommended that the PCA rates for the three schedules be adjusted to account for the over-collection of PCA rates due to the two-week extension. Finally, the Staff recommended that the Commission open an investigation to review the financial impacts of the Valmy incident. Staff proposes that the PCA rates become effective June 1, 2004, as proposed by the Company.

### *B. The Company's Reply*

The Company first replied to the Staff's recommendation to provide additional credits to Schedule 7, 19 and 24 customers based on the over-collection during the two-week period. Based upon Staff's methodology, the Company recomputed the additional credits using actual May 2003 sales. The Company calculated that the over-collection for the two-week period totaled $476,826 (compared to the Staff's calculation of $605,689). Incorporating this adjustment, the Company calculated that the effective PCA rates for Schedule 7 would be 0.5761¢/kWh; the Schedule 19 rate would be 0.5731¢/kWh; and the Schedule 24 irrigation rate would be 0.5054¢/kWh. Reply, Atch. 1. The Staff agrees with the Company's calculations and proposed PCA rate adjustments.

The Company's Reply Comments also addressed the Staff's request for a Valmy investigation. Although Idaho Power generally concurred with the Staff's summary of events associated with the outage, it did not agree with the Staff's characterization of the purpose of the PCA. The Company took issue with the Staff's characterization that the PCA "was established to adjust for changes in water conditions and energy market prices. In other words, whether related conditions and power supply costs were beyond the control of the Company." Reply Comments at 2, *quoting* Staff Comments at 8. Idaho Power asserted that the Staff's characterization "unduly narrows the scope of the PCA, and in doing so, fails to acknowledge that the Company's generating units often perform with a reliability that exceeds industry norms. The Company believes that the PCA methodology as adopted intended to balance above-average and below-average performance." Reply at 2.

The Company offered to provide the Commission with additional information regarding last summer's outage "either informally or formally as part of a new docket." *Id. at* 3.

## COMMISSION DECISION

1. Based upon the agreement of the Company and Staff, does the Commission find that the projected power costs of 0.2499¢, the true-up component of 0.3661¢ and the true-up of the true-up of 0.0046¢ result in a PCA rate of 0.6206¢/kWh? Although this rate represents an increase of 0.0167¢, does the Commission wish to continue the existing PCA rate of 0.6039¢/kWh except for the Schedules 7, 19 and 24 customers?

2. Does the Commission find that the PCA credits for customers of Schedules 7, 19 and 24 should be adjusted to account for the two-week period? Based upon the Staff and Company recalculation of the appropriate credit ($476,826), does the Commission find that the appropriate rate for these schedules should be: Schedule 7 (0.5761¢); Schedule 19 (0.5731¢); and Schedule 24 (0.5054¢)?

3. Does the Commission wish to make the PCA rates effective June 1, 2004?

4. Does the Commission wish to open an investigation regarding the replacement power cost caused by the Valmy 2 outage? Does the Commission wish to use some other process or procedure?

5. Anything else?

Don

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