Office of the Secretary
Service Date
May 31, 2011

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT POWER COST ADJUSTMENT (PCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2011 THROUGH MAY 31, 2012	)	CASE NO. IPC-E-11-06 ORDER NO. 32250

On April 15, 2011, Idaho Power Company filed its annual power cost adjustment (PCA) Application. Since 1993, the PCA mechanism has permitted Idaho Power to adjust its PCA rates upward or downward to reflect the Company's annual "power supply costs." Because about half of the Company's generation is from hydropower facilities, Idaho Power's actual cost of providing electricity (its power supply cost) varies from year to year depending on changes in Snake River streamflows, the amounts of purchased power, the market price of power, and other factors (such as sale of sulfur dioxide (SO2) allowances). The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate.

In this PCA Application, Idaho Power calculates that its annual power costs have decreased below the normalized PCA expenses. After recovering its power costs, the Company estimates that the existing PCA rates should be decreased by about $40.4 million, or an average decrease in the existing rates of approximately 4.78%.

On April 21, 2011, the Commission issued a Notice of Application and a Notice of Modified Procedure. Order No. 32227. The Notice invited interested persons to file written comments no later than May 17, 2011. Written comments were filed by one customer[1] and the Commission Staff. The Company also filed timely reply comments. As set out in greater detail below, the Commission approves Idaho Power's Application to reduce its PCA rates effective June 1, 2011.

BACKGROUND

A. The PCA Mechanism

The annual PCA mechanism is comprised of three major components. First, PCA rates are calculated to reflect projected or "forecasted" power costs for the coming year using the

[1] The customer did not specifically address the PCA rates but encouraged the State to develop intrastate energy sources to meet our energy needs.

Company's most recent Operating Plan. This method replaced the previous method that was based on streamflow forecast and a regression formula derived from rate case data. Order No. 30715. While streamflows will still be a factor in the projected power costs, the new method should be more reliable. In years of abundant snowpacks and streamflows, the Company's power supply costs are usually lower because of the availability of relatively inexpensive hydro-generation. Conversely, when streamflows or snowpacks are low, Idaho Power must rely increasingly upon its other thermal generating resources and power purchased from the regional market. The Company's other thermal generating resources (coal and gas plants) and purchased power are typically more costly than the Company's hydro-generation. Projected power costs also include: revenues from the sale of Renewable Energy Credits (RECs) and sulfur dioxide (SO2) allowances; and the Hoku PCA adjustment based on Hoku's first block energy revenue. The forecast rate is designed to recover 95% of the difference between projected and base power costs except for differences in PURPA purchased power costs that are included at 100%. Order No. 30715.

Second, because the PCA includes a rate based on forecasted costs, the preceding year's forecast revenue is "trued-up" up to the difference between actual and base power supply costs during the prior year. Third, "reconciliation"[2] of the previous year's true-up component under which any over-recovered or under-recovered balance from the second component and the previous year's reconciliation is credited to or collected in this year's PCA rate. This third component is designed to ensure the Company recovers the actual approved costs. Consequently, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements – no more or no less. Order No. 29334 at 4. Thus, ratepayers receive a credit when actual power costs are below those power supply costs included in rates, but are assessed a surcharge when actual power costs are above the power supply costs included in rates.

B. The 2010-2011 Application

This year's PCA Application includes the forecast of projected power costs; a true-up of last year's forecasted costs to reflect actual costs; and reconciliation of the 2010-2011 PCA year. The Company calculates that the adjusted PCA forecast amount is about $125.64 million which is $32,274,850 less than the PCA base amount approved in Order No. 31042. Thus, the aggregate rate for the non-PURPA expenses (shared at 95%) is a credit of (0.2167) cents per

[2] This reconciliation component is often referred to as the "true-up of the true-up."

kWh. Application at 4. The Operating Plan's quantification of PURPA expenses (tracked at 100%) is $36,949,600 greater than the $62.8 million quantified in the power supply expenses approved in Order No. 31042. This results in a surcharge rate for PURPA expenses of 0.2612 cents per kWh. *Id.* Consequently, the projected forecast of the PCA rate is a surcharge of 0.0445 cents per kWh (.2612 cents per kWh - .2167 cents per kWh). Application at 4; Larkin Dir. at 6-8.

Idaho Power reports that the difference between last year's base costs and actual costs and revenue recovered from the forecast rate (the true-up component) is $3,689,374. *Id.* at 5. This amount is divided by the projected jurisdictional sales of 13,478,411 MWh to arrive at a surcharge of 0.0273 cents per kWh. Larkin Dir. at 9.

The third PCA rate element is the reconciliation of the previous year's true-up. Last year the Company over-collected the PCA deferral balance by $18,152,666. Application at 5; Larkin Dir. at 10. Dividing this amount by the projected jurisdictional sales of 13,478,411 MWh, results in a PCA reconciliation credit of negative (0.1347) cents per kWh. *Id.*

Combining the three components – the projected power costs surcharge of 0.0445 cents per kWh, the true-up surcharge of 0.0273 cents per kWh and the adjusted reconciliation credit of 0.1347 cents per kWh – results in a uniform PCA rate credit for the 2011-2012 PCA year of (0.0629) cents per kWh.

This year's PCA also has two other adjustments. First, in Order No. 32217 the Commission authorized the Company to recover $10 million of deferred Energy Efficiency Rider (EER) costs from this year's PCA case. Case No. IPC-E-10-27. Idaho Power allocated the $10 million among the customer classes based upon each class's proportion of total base revenues for the PCA year (June 1, 2011 through May 31, 2012). Application at ¶ 15, Atch. 1 (proposed tariff Sch. 55); Larkin Dir. at 10; Exh. No. 2. Second, in Order No. 32206 the Commission directed each electric utility to compute its new Load Change Adjustment Rate (LCAR) "based on its most recent Commission-approved cost of service rates and apply the new LCAR to PCA calculations beginning on April 1, 2011." Order No. 32206 at 7. The LCAR is intended to eliminate the double recovery of power supply expenses associated with changes in loads due to weather, customer usage, or the number of customers. Larkin Dir. at 12. Idaho Power calculated its new LCAR is $19.36 per MWh to be effective April 1, 2011. *Id.* at 13.

C. The PCA Rate Proposal

Idaho Power proposed to implement the PCA rates on June 1, 2011. The proposed PCA rate represents an overall average decrease of 4.78% but due to the equal cents/kWh adjustment and allocation of the $10 million EER costs, each customer class will receive a different decrease. The table below shows the proposed decreases in the PCA rates for the major customer classes:

Customer Group (Schedule)	**Current PCA Rate**	**Proposed PCA Rate**	**Percentage Decrease**
Residential (1)	0.3114¢/kWh	.0289¢/kWh	3.58%
Small Commercial (7)	0.3114¢/kWh	.0539¢/kWh	2.59%
Large Commercial (9S)	0.3114¢/kWh	.0040¢/kWh	5.38%
Industrial (19P)	0.3114¢/kWh	(.0137)¢/kWh	7.83%
Irrigation (24)	0.3114¢/kWh	.0114¢/kWh	4.72%

Source: Exh. Nos. 2 and 3; Atch. 1

The PCA rates for Idaho Power's four special-contract customers would also decrease. Under the Company's proposal, the PCA rates for the special-contract customers would be: (0.0208) cents per kWh for Micron; (0.0234) cents per kWh for Simplot; (0.0238) cents per kWh for INL; and 0.1195 cents per kWh for Hoku.

THE COMMENTS

Staff analyzed each of the three separate PCA components and their supporting calculations. Based upon this review, Staff confirmed that the Company has correctly recorded its annual power supply costs and correctly calculated the three separate rate components.

As part of its audit, Staff also reviewed the Company's Irrigation Peak Rewards Program.[3] This voluntary program is used to decrease the Company's summer peak load by requiring participating irrigation customers to temporarily shut-off their irrigation pumps for specified hours during the irrigation season. This demand response program is dispatchable, reliable and often less expensive than purchasing power during periods of heavy load. In its

[3] The Peak Rewards Program has two options. Under the original option, the Company installs timers on the electric panel controlling specific irrigation pumps at the metered service point. The timers are set to interrupt specified irrigation pumps on a designated weekday or days as selected by the customer. Service is interrupted during the hours of 4 p.m. to 8 p.m. on one, two, or three regularly scheduled weekdays for each week during the program season. Under the second option, the Company "dispatches" service interruptions remotely to specified irrigation pumps any weekday during the program season between the hours of 2 p.m. and 8 p.m. Service interruptions may last up to 4 hours per day but will not exceed 15 hours per calendar week or 60 hours per program season. Under the second option, the Company is obligated to provide customers with notice of the pending service interruption by 4 p.m. on the day prior to each service interruption.

audit Staff determined that participants in the 2010 irrigation season were interrupted for 12 hours out of 60 potential hours, or 20% of potential hours. Staff Comments at 4. To reduce the Company's power supply costs during these heavy-load hours, Staff recommended that the Company increase the use of its curtailment hours in the Irrigation Peak Rewards Program. *Id.*

Staff next determined that the Company properly allocated the recovery of the $10 million in Energy Efficiency Rider (EER) expenses among the customer classes. Idaho Power allocated the ERR expenses based upon forecasted revenues during the 2011/2012 PCA year. *Id.* at 13. Staff also accepted the calculation of the new LCAR at $19.36 per MWh to be effective on April 1, 2011. *Id.* at 6.

Staff also proposed one adjustment to the Company's PCA calculations. In Case No. IPC-E-09-30, the Commission approved a stipulation between the Company, Staff, and other parties. Order No. 30978. In the stipulation, the parties agreed that if the Company's return on equity (ROE) exceeded a 10.5% return, then the Company and ratepayers would share equally in the returns above this threshold. Staff calculated that the Company's ROE exceeded the sharing threshold and recommended that additional revenues be shared with ratepayers. Staff Comments at 10-12.

In its reply comments, the Company opposed Staff's ROE adjustment. After reviewing the reply comments and the accounts involved, Staff filed "Additional Comments" withdrawing its proposed ROE adjustment. Consequently, both the Company and Staff recommended that the Commission approve the PCA Application and the implementing tariff Schedule No. 55 effective June 1, 2011. Reply Comments at 4; Additional Comments at 2.

DISCUSSION AND FINDINGS

After reviewing the PCA Application and the comments filed in this case, the Commission finds it is reasonable to grant Idaho Power's Application to decrease its PCA rates for the 2011/2012 PCA year. We find that the combination of the three PCA components results in a fair, just and reasonable uniform PCA rate component of 0.0629 cents per kWh.

We further find that the Company has reasonably allocated the $10 million attributable to the Energy Efficiency Rider (EER) expenses in compliance with our Order No. 32217. In reviewing the Company's EER allocation, Staff observed that the Company used a forecast of 2011/2012 customer revenues to allocate the DSM expenses to the individual customer classes. We find this methodology reasonable. We also approve Idaho Power's new Load Change Adjustment Rate (LCAR) of $19.36 per MWh to be effective April 1, 2011.

Combining the uniform PCA rate component with the rates necessary to recover the EER allocation, results in the rates set out in the Company's proposed Schedule No. 55. We find the rates contained in Schedule 55 to be fair, just and reasonable. *Idaho Code* §§ 61-502 and 61-503.

Finally, Staff recommended that the Company consider increasing its use of curtailment hours in the Irrigation Peak Rewards Program as a means of decreasing power supply costs during this PCA year. The Company should use all available opportunities to reduce its power supply costs consistent with operating and reliability constraints. Consequently, we encourage the Company to consider using more curtailment hours in lieu of purchasing power during the expensive, heavy-load hours if is cost-effective to do so.

ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power Company to decrease its Power Cost Adjustment (PCA) rates effective June 1, 2011 through May 31, 2012, is approved as set forth in this Order. The uniform PCA rate shall be 0.0629 cents per kWh for all customer classes and the four special-contract customers. The Company shall charge the adjusted PCA rates set out in tariff Schedule No. 55.

IT IS FURTHER ORDERED that the PCA rates contained in tariff Schedule No. 55 shall be effective for service on June 1, 2011.

IT IS FURTHER ORDERED that Idaho Power's LCAR shall be set at $19.36 per MWh effective April 1, 2011.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-11-06 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. 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 2011.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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