Office of the Secretary
Service Date
May 31, 2013

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, 2013 THROUGH MAY 31, 2014	))))))	CASE NO. IPC-E-13-10 ORDER NO. 32821

On April 15, 2013, Idaho Power Company filed its annual Power Cost Adjustment (PCA) Application. The Company asks for an Order: (1) approving an update to Schedule 55 reflecting a $140.4 million increase in the PCA rates now in effect; (2) approving the Company's determination of the 2012 revenue sharing amounts to be shared with customers; and (3) implementing one of two proposed Schedule 55 PCA rates, effective June 1, 2013 through May 31, 2014, which would allow the Company to collect the $140.4 million over one or two years. Recovery in one year would increase Idaho customer rates by 15.3% on average. Recovery over two years would increase rates on average by 9.6% in the first year, and would leave about $52.5 million for recovery in the second year along with any amounts that may be surcharged or rebated to customers as part of that year's normal PCA process.

On April 23, 2013, the Commission issued an Order scheduling public informational workshops and soliciting public input on the Application. *See* Order No. 32796. The Commission noted that it would be appropriate to comment on any aspect of the Company's filing. The Commission also invited parties to comment on whether Idaho Power's PCA calculation should continue to include transmission expenses only, or whether both transmission revenues and expenses should be included. *Id.* The Commission set a May 17, 2013 comment deadline for Staff and intervenors, a May 21, 2013 reply comment deadline for the Company, and a May 28, 2013 comment deadline for the general public. *Id.* Commission Staff conducted public workshops on April 30, 2013, and May 1 and 8 in Pocatello, Twin Falls, and Boise, Idaho. Staff and the sole intervenor, the Industrial Customers of Idaho Power, then filed timely written comments, and the Company filed a timely reply. In addition, a number of public comments were received.

Having thoroughly reviewed the Application and comments, the Commission grants Idaho Power's PCA Application as discussed below, with new PCA rates allowing full recovery over one year to take effect June 1, 2013. And as further explained below, the Commission also directs the Company to begin using actual energy sales in the true-up component of the PCA, and to include both transmission expenses and revenues in its future PCA calculations.

THE PCA MECHANISM

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 amount of purchased power, fuel costs, the market price of power, and other factors.[1] The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate.

The annual PCA mechanism consists of three standard components.

First, projected power costs for the coming PCA year (June 1, 2013 to May 31, 2014) are calculated using the Company's most recent "Operating Plan." Order No. 30715. The projected power costs include: fuel costs; transmission costs for purchased power; Public Utilty Regulatory Policies Act of 1978 (PURPA) contract expenses; surplus sales revenues; Hoku first block take-or-pay revenues; and revenues from the sale of renewable energy credits (RECs) and sulfur dioxide allowances. The Company may recover 95% of the difference between the non-PURPA projected power costs and the approved base power cost, 100% of the costs of its PURPA contracts, and 100% of its demand-side management (DSM) incentive and conservation costs. *See* Order No. 30715, and Order No. 32426 at 3.

Second, the prior year's projected power costs are "trued-up" based upon the actual costs incurred during the prior year.

Third, the prior year's "true-up" component is reconciled so any over-recovered or under-recovered balance from the prior year's "true-up" component is credited to or collected from this year's PCA rate. This third, "reconciliation" component ensures that the Company recovers its actual approved costs while ratepayers pay only for the actual amount of power that the Company sold to meet native load requirements. Order No. 29334 at 4.[2] Thus, ratepayers

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[1] For example, the revenue from the sale of sulfur dioxide (SO2) allowances.

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

receive a rate credit when power costs are low, but are assessed a rate surcharge when power costs are high.

Besides the three standard components described above, a fourth, "revenue sharing" component applies to this year's PCA. In 2010 and 2011, Commission Order Nos. 30978 and 32424 established a mechanism by which the Company must share certain revenues with customers. The first Order requires the Company to provide customers with 50% of any earnings above a 10.5% year-end return on equity (ROE). This customer "revenue sharing" benefit serves as a customer credit against the standard PCA components to yield a combined rate to be set forth in Schedule 55. The second Order requires the Company to provide an additional customer benefit; specifically: (1) for actual year-end earnings greater than 10% ROE up to and including 10.5% in any year from 2012 through 2014, the earnings will be shared equally between Idaho customers and the Company, with the customer revenue-sharing benefit to appear as a reduction to rates when the PCA takes effect; and (2) the Company must book 75% of its share of its Idaho jurisdictional 2011 year-end ROE above 10.5% as an offset against amounts in the Company's Pension Balancing Account that the Company otherwise would collect from customers through rates. *See* Order Nos. 30978 and 32424.

THE APPLICATION

A. The PCA Components

This year, Idaho Power's PCA Application requests a total revenue increase of about $140.4 million for the 2013-2014 PCA year. The Company primarily attributes the proposed rate increase to: (1) the expiration of nearly $50 million in rate credits; (2) 1.8 million megawatt-hours lower actual hydro-generation as compared to the 2012-2013 forecasted amount; and (3) lower actual market energy prices as compared to 2012-2013 forecasted prices. The Company says the latter two factors reduced forecasted surplus energy sales by $61.4 million, which would have normally offset power supply expenses recovered from customers. Application at 8.

The Company calculated the proposed, $140.4 revenue increase by combining the three standard PCA components—projected power cost, true-up, and reconciliation—with the fourth, revenue-sharing component. The Company calculated the three standard PCA components to be: (1) projected power costs for the 2013-2014 PCA are 0.8258¢/kWh; (2) the true-up of last year's projected costs to reflect actual costs results in 0.4622¢/kWh; and (3) the reconciliation of the 2012-2013 true-up results in a PCA reconciliation rate of negative

0.0574¢/kWh. These three standard PCA components combine for a new PCA rate for the 2013-2014 PCA year of 1.2306¢/kWh. *Id.* at 6-7. The Company then applied the fourth, revenue sharing component as specified in Order Nos. 30978 and 32424. The Company noted that its Idaho jurisdictional 2012 year-end ROE was 11.8%, and that customers would receive a $21,769,753 total benefit consisting of a $14,618,532 offset to the Company's pension balancing account and a $7,151,221 rate credit. This revenue sharing rate credit reduces the 2013-2014 PCA Year calculation by about $7.2 million. *Id.* at 5, 7-8.

B. The PCA Proposals

The Company's Application offers alternative proposals for recovering $140.4 million through the PCA. These are as follows.

1. Standard PCA Proposal. Under a standard PCA recovery, the Company would seek to recover the full $140.4 million revenue increase from June 1, 2013 to May 31, 2014, for an overall increase of about 15.34%. *Id.* at 2. Under this standard proposal, the proposed PCA rates (including the revenue sharing component) for the major customer classes are as follows:

Customer Group (Schedules)	Current PCA Rate	Proposed PCA Rate	Percentage Change Billed to Billed Revenue
Residential (1)	0.0793¢/kWh	1.163¢/kWh	12.54%
Small General Service (7)	.0094¢/kWh	1.145¢/kWh	10.36%
Large General Service (9)	.1492¢/kWh	1.182¢/kWh	16.86%
Large Power Service (19)	.1986¢/kWh	1.194¢/kWh	21.07%
Irrigation (24)	.1295¢/kWh	1.177¢/kWh	15.38%

Source: Atch. 1; Atch. 3, p. 1. *See also*, Press Release accompanying Application.

The PCA rates for Idaho Power's four special-contract customers would also increase. Under the Company's proposal, the PCA rate for all the special-contract customers would be 1.2306¢/kWh. *Id.* In addition, special-contract customers would receive the following monthly credit during the PCA year: Micron – $180,702; Simplot – $55,194; DOE (INL) – $71,326; and Hoku – $0.00. Atch. 1, pp. 2-3.

2. Mitigated PCA Proposal. As an alternative to collecting the entire $140.4 million in one year, the Company proposes to mitigate the immediate rate impact on customers by deferring $52.5 million of the $140.4 million PCA recovery until the next PCA year (June 1, 2014 – May 31, 2015). Under this alternative, effective June 1, 2013 to May 31, 2014, the

Company would increase revenues by $87.9 million through rates and charges to all customer classes and special contracts, for an overall 9.6% increase over current billed revenue. *Id.* at 2, 9. Under the alternative, mitigated proposal, the approximate, proposed PCA rates (including the revenue sharing component) for the major customer classes are as follows:

Customer Group (Schedules)	Current PCA Rate	Proposed PCA Rate	Percentage Change Billed to Billed Revenue
Residential (1)	0.0793¢/kWh	0.7730¢/kWh	8.03%
Small General Service (7)	.0094¢/kWh	.7543¢/kWh	6.80%
Large General Service (9)	.1492¢/kWh	.7915¢/kWh	10.47%
Large Power Service (19)	.1986¢/kWh	.8039¢/kWh	12.81%
Irrigation (24)	.1295¢/kWh	.7865¢/kWh	9.65%

Source: Atch. 2; Atch. 3, p. 3. *See also*, Press Release accompanying Application.

The PCA rates for Idaho Power's four special-contract customers would also increase. Under the Company's alternative proposal, the PCA rate for all the special-contract customers would be .8404¢/kWh. *Id.* In addition, as with the standard PCA proposal, special contract customers would receive a monthly credit during the PCA year as follows: Micron – $180,702; Simplot – $55,194; DOE (INL) – $71,326; and Hoku – $0.00. Atch. 2, pp. 2-3.

COMMENTS AND DISCUSSION

Staff, ICIP, and Idaho Power filed comments or testimony, or both. In addition, the Commission received about 31 public comments. The parties' and commenters' views on the proposed PCA proposals are discussed below, along with our findings. The parties' views and our findings on two additional issues—whether the PCA true-up calculation should use actual revenues instead of normalized revenues, and whether the PCA calculation should include both transmission expenses and revenues or just transmission expenses—are also discussed.

A. The PCA Proposals

1. Public Comments. The Commission received about 31 public comments. Commenters included residential, small business, and irrigation customers, larger customers like Wal-Mart Stores, Inc. (Walmart) and the U.S. Department of Energy (DOE), and the Snake River Alliance (SRA). All customers were concerned about the proposed rate increases.

Customers said the Company needs to do a better job of forecasting hydro flows and market prices. Further, the Company should reduce costs by encouraging net metering, work on the efficiency of its operations, trim its costs and "tighten its belt," stop using a defined benefit pension plan, and ensure that ratepayers are not funding the Company's charitable contributions. Customers also suggested that the Company avoid rate increases by reducing executive compensation. Customers noted that the average Idahoan— and especially residents on a fixed income—cannot afford a rate increase at this time.

Walmart says Idaho Power serves 13 Walmart stores in Idaho. Walmart observes that while the proposed PCA increase will impact large general service customers by about 16.86%, it will impact Walmart by about 20% due to the higher load factor of Walmart's stores. Walmart says it agrees conceptually with Idaho Power's reservations about implementing a mitigation plan. But the extraordinary impact of a non-mitigated increase coupled with the Company's favorable financial position lead Walmart to recommend that the Commission approve the mitigation proposal.

DOE commented on behalf of the Idaho National Laboratory and Federal Executive Agencies. DOE argues that the Company's traditional, single-year PCA proposal would have "punishing effects" and that even the Company's mitigated, two-year PCA proposal "would impose unduly burdensome increases." DOE thus recommended the Commission order the Company to implement the increase in the form of a three-year amortization. DOE Comments at 1-2. DOE says the PCA is "a multifaceted, time-consuming and resource-intense series of exercises in accounting and bookkeeping" that aims to "allow the Company to collect prudently incurred costs while making rates that do not harm any ratepayer or class of ratepayers, nor harm the State's economy and areas beyond." *Id.* at 2. But DOE notes that the Company's proposed PCA increases will likely harm the State's large users and cause a loss of industrial load that will result in higher rates for all customers. *Id.* DOE thus urges the Commission to adopt "a more meaningful mitigation plan." *Id.* at 3. Specifically, DOE proposes that the Commission adopt a first-year, single digit percentage rate increase cap for all individual customer classes and special contract customers. Under DOE's proposal, any remaining balance due to the Company would be amortized over the next two years, with the single-digit percentage increase cap applying again in the second year. DOE says its proposed three-year mitigation plan would reduce the risk that rate shock will adversely affect energy-intensive customers and Idaho's economy. *Id.*

Snake River Alliance (SRA) notes that the magnitude of this year's PCA is enormous regardless of how it is put into rates. SRA Comments at 1. SRA says the Commission faces a

"Hobson's Choice" in deciding whether to impose a large, one-year rate increase on customers or to soften that burden by opting for Idaho Power's alternative rate mitigation proposal or a mitigation strategy proposed by others. *Id.* at 2. At issue is whether the Commission opts to impose on consumers the true cost of their electricity over the past year, punishing as that might be, or whether it defers some of the cost to 2014 without knowing if that bill may be even greater next year. *Id.* SRA is concerned that deferring some of the PCA recovery to another year may result in rate "pancaking" and future, unknown rate hits on consumers. SRA thus generally supports recovering verifiable expenses as close to the time in which they are incurred. But in this case SRA is concerned that the Company's non-mitigation proposal will be overly burdensome on the Company's most vulnerable customers. *Id.* SRA thus supports recovery of this PCA over two years. *Id.* But SRA opposes spreading the PCA over three years as proposed by DOE (and ICIP). *Id.* at 1. SRA shares Walmart's concern that the PCA's large impact on Schedule 9 customers may have long-lasting secondary effects. *Id.* at 4. SRA agrees with the Company that when considering mitigation options for this year's PCA, the Commission should factor-in the continuing deterioration of the Lower Snake River Flows. *Id.* at 5. SRA believes the sub-par hydropower conditions reflect a new climatic normal in Idaho and in the Columbia River Basin. *Id.*

2. Staff. Staff analyzed and verified the Company's PCA calculations. Staff calculated that the uniform PCA rate surcharge is 1.2306 cents per kWh (comprised of the three, traditional PCA components: forecast 0.8258 cents, plus the true-up 0.4622 cents, minus the reconciliation 0.0574 cents). Staff also confirmed that the Company correctly determined the revenue sharing component of this year's PCA, and calculated the revenue sharing credit to be $7.2 million. Staff confirmed that the new PCA surcharge rate combines with the revenue sharing rates to produce PCA rates as calculated by Idaho Power. Staff agreed with the Company's calculations for the traditional, one-year recovery option and the two-year, mitigation option. Of the two options, Staff favors a rate mitigation plan that passes costs to ratepayers over two years. *See* Staff Comments at 4-12.

Staff suggested its own two-year mitigation plan. Staff's plan calls for a 7.84% average increase each year. In contrast, Staff said under similar conditions the Company's mitigation plan would call for a 9.6% increase the first year and a 4.5% increase the second year.

3. <u>ICIP</u>. ICIP said that this year's $140 million PCA is the second highest PCA ever, not counting the anomalous two years following the west coast energy crisis of 2001 and 2002. ICIP Comments at 1. In discussing the PCA components, ICIP notes that Idaho Power's over-forecasting of hydro generation and wholesale prices was by far the largest year-over-year contributor to the PCA increase. ICIP acknowledges that the forecast error is largely outside the Company's control. ICIP suggests, however, that the parties meet to explore whether institutional fixes exist that may make for a more accurate or timely forecast. *Id.* at 2. ICIP also clarifies that while there is a large, carry-over balance of PURPA costs embedded in the PCA, the PURPA-related increase in the PCA this year over last year is 1.5% or $2.1 million. *Id.* at 3.

ICIP explained that the PCA increase disproportionately impacts high-load factor customers like J.R. Simplot Company, which under a one-year recovery would face a 25.95% increase while the average overall increase is 15.34%. *Id.* at 4. ICIP thus proposes an alternative to Idaho Power's rate mitigation proposal. *Id.* at 5. To guard against rate instability, ICIP initially proposed spreading the $140.4 million over three years, with the Company's proposed 9.6% increase limit being applied on a class-by-class basis. Under this approach, 9.6% would be the limiting factor for any class for the 2013-2014 and 2015 PCA years. A residual 5.7% recovery would be allowed in the 2015-2016 PCA year. Using this approach, the Company would collect $52 million in 2013-2014; $55 million in 2014-2015; and $36 million in 2015-2016. *Id.* ICIP says its mitigation proposal does not extend the increase over an unreasonable amount of time. Further, the PCA has $62.6 million in embedded, carry-over PURPA expenses that have accumulated since base rates were last established. ICIP says that moving these PURPA expenses from the PCA to base rates in a general rate case would equalize the rate impact among customer classes. *Id.* at 6. Lastly, ICIP stressed that mitigation is especially appropriate because the proposed PCA increase follows the recent Langley Gulch 7% rate increase. Further, deferring the revenue over three years will not impose a hardship on Idaho Power's shareholders, as evidenced by Idaho Power's 12% compound annual growth rate over the last five years. *Id.*

After submitting its initial comments, ICIP replied to the Staff's suggestion of a two-year mitigation plan. *See* ICIP Reply Comments. ICIP said that given the Company's healthy earnings and positive cash flow there is no urgent need to compress this PCA recovery into two years. Rather, ICIP concurs with DOE that the Commission should mitigate the impact of the requested increase over three years by holding the increase to a single-digit percentage in each year. *Id.* at 1-2.

4. Idaho Power Reply. Idaho Power's reply comments addressed the rate mitigation proposals submitted by the Company, Staff, ICIP, and DOE. The Company observed that each mitigation proposal carries a risk that deferred amounts will compound with a subsequent year's increase to create rate "pancaking." But the Company stressed that its PCA rate mitigation option would result in the lowest amount of deferred cost recovery of any of the mitigation options presented and, therefore, a lower risk of rate "pancaking" than the other options. Company Reply at 1-3.

The Company also noted that streamflow conditions have further deteriorated since the Company's March 2013 Operating Plan, and it urged the Commission to factor in the continuing deterioration of the Lower Snake River flows in deciding whether mitigation is appropriate. In light of the current streamflow expectations, the Company believes that any mitigation option that defers more costs than the Company's PCA rate mitigation alternative brings with it too much risk. The Company explained that it is less likely that next year's April through July streamflow conditions will be worse than the 2013 condition, but it is likely that the Company will experience higher than forecast power costs in the 2013/2014 PCA year associated with lower than forecasted hydro production. The Company says this foreshadows the rate "pancaking" risk that exists today. *Id.* at 4-5.

Lastly, the Company addressed ICIP's argument that Idaho Power's recent earnings performance indicates that the Company can withstand additional cost deferrals beyond that offered in the Company's mitigation proposal. *Id.* at 5-6. The Company said that ICIP ignores that the Company's ability to defer costs for future recovery is not enabled by its earnings performance, but by its access to cash to cover the costs during the deferral period. The Company says the $52.5 million in deferred recovery offered by Idaho Power represents the upper limit of what the Company can comfortably withstand from a cash flow perspective. The Company expressed concern that the investment community could view the other PCA rate mitigation proposals as creating recovery lag in an otherwise mechanistic and reliable cost recovery mechanism. *Id.* at 6.

Commission Findings: After reviewing the PCA Application and the comments filed in this case, the Commission finds that the current PCA rates are insufficient for the

Company to recover its annual power costs. *Idaho Code* § 61-502. We also find it is fair, just, and reasonable to grant Idaho Power's Application to increase its PCA rates for the 2013-2014 PCA year. Specifically, the Commission finds it reasonable to allow the Company to recover the full $140 million revenue increase using the Company's traditional, single-year PCA recovery proposal from June 1, 2013 to May 31, 2014. We find that the combination of the three traditional PCA components results in a PCA rate of 1.2306 cents per kWh. We further find that it is reasonable to offset the PCA rate increase with the $7.1 million in revenue sharing funds. When the PCA rates are combined with the revenue sharing funds, we find that the combined PCA rates in Schedule 55 (Atch. 1 to the Application, as corrected by Replacement Sheet 55-2) are fair, just and reasonable.

In making this finding, we note that no party opposed the Company's calculations of the PCA components, revenue sharing amounts, or other numerical aspects of the filing. Rather, the timing of the recovery is the disputed issue. We are sympathetic to the request to spread the authorized rate increase over time, and we understand that allowing full recovery in one year will have an immediate, negative impact on all customers, some more than others. Our concern for creating the risk of compounding or "pancaking" rate increases in the future overshadows the impact we know will be felt this year. Forecasts for water are, at best, uncertain. Given this, we find it is too risky and potentially could compound "rate shock" for customers to spread this year's PCA recovery across multiple future years.

We also note that the Company's PCA includes about $60 million in embedded PURPA costs and $23 million in costs related to HOKU. The Company is carrying these costs in its PCA due to decisions made in the settlement of Case No. IPC-E-11-08 that were accepted by the Commission. If not for that decision, these costs would have been included in base rates and customers would already be paying rates that recover them. Instead of collecting these costs from customers though base rates, the parties to the Case No. IPC-E-11-08 settlement stipulation agreed that the Company should recover these costs by collecting them through the PCA. *See* Order No. 32426, Case No. IPC-E-11-08.[3] The settlement thus reduced the immediate base rate impact on customers. But as we see now, it has exposed them to a large increase in the PCA adjustment. Had this been even a normal water year, the decision to recover these costs in the

[3] In that case, parties including Idaho Power, Staff, ICIP, DOE, and SRA signed the Settlement Stipulation. Other parties including the Idaho Irrigation Pumpers Association, Inc.; Micron Technology, Inc.; NW Energy Coalition; The Kroger Co.; Hoku Materials, Inc.; and Idaho Conservation League also signed.

PCA would not have been so onerous. However, below normal water has compounded the rate impact. Until the Company files a general rate case, the embedded PURPA and HOKU costs will accumulate and appear each year in the Company's PCA.

The danger of using the PCA as a cost recovery mechanism for more than the current annual power cost fluctuation is plainly demonstrated here. The PCA was never intended for long term recovery of costs that continue year to year. It was implemented to properly recover the Company's annual fluctuation in power supply costs and keep the customers from paying either too little or too much of those costs. Using the PCA as a means for recovering year-to-year costs also distorts the allocation of costs among customer classes because it is all recovered in the energy charges.

B. Including Actual Revenue instead of Normalized Revenue in the True-Up

1. Staff. Staff reported on an issue that arose in last year's PCA case relating to the revenue credit included in the true-up mechanism. *See* Order No. 32552 at 7 (encouraging "Staff to discuss with the Company Staff's concerns about using normalized data versus actual data in the true-up component of the PCA mechanism"). Staff said the Company has historically used normalized energy data to calculate revenue from the prior year's forecast rate. But Staff would prefer the Company credit customers with actual revenue by applying the prior year's forecast rate to actual Idaho jurisdictional energy sales. Staff said it discussed this with the Company and the Company has agreed to implement the change with the new PCA rates on June 1, 2013, if approved by the Commission. *See* Staff Comments at 13-14.

2. ICIP. ICIP says it understands that Staff and the Company have agreed the Company would use actual loads for the true-up beginning with this year's PCA. ICIP supports this change. ICIP Comments at 7.

Commission Findings: Based on our review of the record, we find it reasonable for the Company to apply actual Idaho jurisdictional energy sales to the forecast rate in the calculation of the true-up component of the PCA mechanism. We direct the Company to implement this change with the new PCA rates on June 1, 2013.

C. Including Transmission Expenses, or Transmission Expenses and Revenue in the PCA

When this case began, the Commission invited the parties to comment on whether the Company's PCA calculation should continue to include only transmission expenses or both transmission expenses and revenues. *See* Order No. 32796. Staff, ICIP, and Idaho Power commented on this issue.

1. Staff. Staff explained that transmission expense arises when the Company uses another utility's transmission system to deliver market purchased power to the Company's native load customers. Transmission revenue, on the other hand, results from two other utilities wheeling power across the Company's system when the Company's customers do not need the transmission capacity. Thus, transmission expense is associated with delivering power to native load customers, while transmission revenue accrues from an opportunity to profit from transmission that would otherwise go unused. Staff explained that when transmission expense differences were first added to the PCA, Staff and the Company also discussed including transmission revenue differences. But Staff said in the course of trying to resolve a group of issues it ultimately dropped the idea of including transmission revenue differences. In these comments, Staff notes that Avista's PCA includes transmission revenue differences, and that Staff again supports including transmission revenue differences in the Company's PCA.[4] *See* Staff Comments at 14.

2. ICIP. ICIP noted that the Company's base rates include both expenses and offsetting revenues for transmission by third parties, but that the Company only includes expenses when calculating the PCA. For matching purposes, and because both revenues and expenses for transmission by others are included in base rates, ICIP recommended that revenues from transmission transactions for third parties be included in the PCA as well. *See* ICIP Comments at 7.

3. Idaho Power Reply. Idaho Power sees no "mismatch" in including third-party transmission expenses but excluding third-party transmission revenues from the PCA. The Company explains that it buys transmission wheeling from other companies to bring purchased power into its system for service to its customers or to allow for surplus sales to be made to other utilities. The transmission wheeling expense varies directly with the number of purchased power transactions the Company makes to serve its load or surplus sales transactions, and the expense is included as a customer credit in the PCA. In contrast, the Company says third-party

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[4] Staff originally commented that both Avista's PCA and Rocky Mountain Power's Energy Cost Adjustment Mechanism (ECAM) include transmission revenue differences. However, in subsequent discussions with Idaho Power, Staff confirmed that Rocky Mountain Power's ECAM does not track transmission revenue differences. *See* Company Reply Comments at 8.

transmission wheeling revenues result when other utilities pay the Company for the use of its transmission system to facilitate their power supply transactions. The Company's third-party transmission wheeling revenues are independent of the power supply expenses incurred by the Company to provide service to its customers. The Company notes that expenses associated with third-party transmission revenues are captured in other accounts like operations and maintenance expense, depreciation expense, etc. The Company concludes that since there is no direct relationship between third-party transmission wheeling revenues and the Company's power supply expenses, there is no "mismatch" of the PCA components. *See* Company Reply at 6-7.

Further, the Company notes that transmission wheeling revenues are not tracked through the PCA because they are intended to recover the costs of owning and operating the Company's transmission system, not power supply costs. The Company thus disagrees with including third-party wheeling revenue in the PCA, because doing so would create a mismatch of cost and revenues. *Id.* at 7-8.

Lastly, the Company says including transmission revenues in the PCA would be problematic because the Company's currently-approved revenue requirement does not include an explicit component related to transmission wheeling revenue. In other words, there is not an established base level amount of transmission wheeling revenue or costs related to those revenues from which deviations could be tracked. *Id.* at 8.

Commission Findings: Based on our review of the record, we find that the Company's current practice of excluding transmission revenue differences from the PCA results in a regulatory mismatch. Under the current practice, the Company's ratepayers are responsible for transmission expense differences each year through the PCA, but they do not receive the benefit of changes in transmission revenues unless and until a rate case occurs. We find it reasonable for the Company to include both transmission revenue and expense differences when calculating future PCAs. We acknowledge, however, that this cannot occur until a base level of third-party transmission revenues is established in the Company's next rate case so that deviations may be tracked. Once this base level is established, the Company is to include both expense and revenue differences in its PCA calculations. We reject the Company's claim that a mismatch will arise if the Company's PCA includes transmission wheeling revenues without their associated costs. The Company provided no detail about these costs. We expect they are *de minimis.*

ORDER

IT IS HEREBY ORDERED that the Company's Application to increase its Power Cost Adjustment (PCA) rates effective June 1, 2013 through May 31, 2014, is granted as reflected in this Order. The update to tariff Schedule 55 as reflected in Attachment 1 to the Company's Application (as modified by Replacement Sheet 55-2) is approved; the Company's determination of the 2012 revenue sharing amounts is approved; and the Schedule 55 PCA rates that allow the Company to collect the $140.4 million over one year are approved, effective June 1, 2013 through May 31, 2014.

IT IS FURTHER ORDERED that the Company shall use actual Idaho jurisdictional energy sales to calculate revenue from the forecast rate in the true-up component of the PCA mechanism, effective June 1, 2013.

IT IS FURTHER ORDERED that the Company shall include both transmission revenue and expense differences in its future PCA calculations, as reflected in this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of 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 2013.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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