

Idaho Public Utilities Commission

Case No. IPC-E-13-10, Order No. 32821

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Fourth largest PCA on record becomes effective June 1

Declining water, reduced revenue from surplus energy sales and ongoing wind power expenses all contributed to a \$140 million Power Cost Adjustment, the fourth highest in PCA history. To make up for the shortfall caused by these factors, Idaho Power Company's residential customers will be assessed a one-year surcharge of an average 12.5 percent effective June 1. For all customers classes combined, the average increase is 15.3 percent.

None of the money collected in the surcharge can be used to increase Idaho Power earnings or salaries, but is kept in a deferred account, audited by the commission, to be used only for paying extraordinary power supply expense. While base rates cover fixed costs, the PCA, adjusted every June 1, covers costs that vary from year to year, and are largely outside the company's control. These costs are related largely to water levels, gas and fuel expense, transportation expense and renewable power contracts for projects mandated by federal law. In six of the last 11 years, the PCA has been a decrease or no change, but this year's is the fourth highest on record due largely to a 19 percent reduction in water the company uses to power its hydroelectric plants.

None of the parties to the case disputed the company's numbers in calculating the annual adjustment, but all parties, including commission staff, recommended spreading the increase over two or three years to soften its impact.

However, spreading the increase over two or three years could mean even higher increases for customers in 2014 and 2015 if the state experiences low water again and a new PCA surcharge is added to an existing surcharge.

"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," the commission said. "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 too risky and potentially could compound rate shock for customers to spread this year's PCA recovery across multiple future years."

For an average residential customer who uses 1,050 kilowatt-hours per month the average monthly increase will be about \$11.38.

These are the primary factors that contributed to the large increase in this year's Power Cost Adjustment:

- About half of Idaho Power's generation comes from its hydropower plants. Hydropower generation from April 1, 2012, through March 31, 2013 was 1.8 million megawatt-hours less than forecasted, a 19 percent reduction.
- Revenue from surplus sales has declined significantly. During those periods when Idaho Power is generating more electricity than its customers consume, the utility sells the surplus generation and shares 95 percent of the revenue with customers. Cheaper energy prices on the open market resulted in \$48.7 million in sales, \$61.4 million less than forecasted.
- About \$62.6 million is attributable to power sales agreements between Idaho Power and renewable energy projects that qualify under the provisions of the Public Utility Regulatory Policies Act (PURPA). The federal act requires utilities to buy energy from qualifying renewable energy projects. About \$60 million of that is from existing wind projects and another \$2 million is from new wind added during the current PCA year.
- About \$23 million is related to Hoku, the Pocatello polysilicon plant that failed last year. The company included the \$23 million in base rates last year in anticipated revenue from Hoku that never materialized.
- The revenue sharing credited to customers since 2010 decreased to \$7 million this year, compared to \$27 million last year. If Idaho Power's return on equity exceeds 10.5 percent, half of the revenue above that amount is shared with customers through a reduction in the PCA.

The commission said a negotiated settlement in Idaho Power's last base rate case under which all parties agreed to keep PURPA and Hoku expense in the PCA rather than moving them into base rates causes a higher PCA at this time. If not for that decision, the commission said, the costs from the wind projects would have been included in base rates and customers would already be paying to recover them. The rate case settlement 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," the commission said. "Had this been a normal water year, the decision to recover those costs in the PCA would not have been so onerous. However, below normal water has compounded the rate impact." The commission said that until Idaho Power files a general rate case, the PURPA costs will accumulate and appear each year in the company's PCA.

The commission staff, Wal-Mart Stores, Inc., and the Snake River Alliance proposed to spread the increase over two years, while the Industrial Customers of Idaho Power (ICIP)

and the Department of Energy argued for a three-year recovery. Large commercial and industrial customers will experience increases of 16.9 percent and 21 percent respectively. ICIP argued the longer recovery period was especially needed following the recent 7 percent increase related to the new Langley Gulch natural gas plant.

In its comments, the Snake River Alliance said, “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.” SRA said it generally supports “recovering verifiable expenses as close to the time in which they are incurred,” but is concerned that a one-year recovery will be “overly burdensome on the company’s most vulnerable customers.”

Idaho Power did propose a mitigation plan that would have recovered 9.6 percent in the first year and the remaining 5.7 percent in the second year. Commission staff proposed collecting about 7.8 percent each of two years.

Parties to the case can file petitions for reconsideration by no later than June 21. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted. Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.

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Idaho Power PCA Over the Last Decade

This year’s PCA recovers \$140 million. The two years that were higher followed the Westwide energy crisis. The 2001 PCA was \$220.2 million and in 2002 it was \$240.2 million. Here’s a look at the PCA over the last 10 years.

2013 – 15.3 percent increase. \$140 million.

2012 – 5.1 percent increase, (\$43 million) but that is offset from a revenue sharing agreement for a net increase to customers of **1.7 percent**.

2011 – 4.8 percent **decrease**. \$50.4 million.

2010 – 6.5 percent **decrease**. \$41.9 million.

2009 – 10.2 percent increase. \$194 million.

2008 – 10.7 percent increase. \$106 million.

2007 – 14.5 percent increase. \$30.7 million.

2006 – 19.4 percent **decrease**. \$-46.8 million credit.

2005 – **No change**. \$73.1 million.

2004 – **No change**. \$70.8 million.

2003 – 18.9 percent **decrease**. \$81.3 million.