

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-16-19  
DEFERRAL AND RECOVERY OF COSTS )  
ASSOCIATED WITH PARTICIPATION IN ) ORDER NO. 33706  
AN ENERGY IMBALANCE MARKET )**

On August 19, 2016, Idaho Power Company filed an Application requesting that the Commission: (1) make a finding that Company participation in the proposed Energy Imbalance Market (EIM) could net customers long-term benefits; (2) authorize a deferral account to track incremental costs associated with participating in the EIM; and (3) allow the Company to recover those costs from customers at a future rate proceeding. Application at 1.

The Commission issued an Order providing notice of the Application and setting a deadline for interventions. The Commission granted interventions from the Industrial Customers of Idaho Power (ICIP), Idaho Conservation League (ICL), and Snake River Alliance (including Staff and the Company, “the parties”). Order Nos. 33607, 33622, and 33615. The parties conferred informally, agreed to process the Application via Modified Procedure, and agreed on a schedule. The Commission issued an Order providing notice of Modified Procedure and adopting the parties’ agreed-upon schedule. Order No. 33627. The parties and one member of the public timely submitted comments, and the Company timely submitted reply comments.

**BACKGROUND**

An EIM pools generation of interconnected electricity producers within a region, and dispatches those resources with the goal of more accurately matching actual production with actual demand. The EIM operates on a nearly real-time basis with multiple participants, as opposed to more conventional long-term two-party contracts that deliver energy in hourly blocks.

In November 2014, the California Independent System Operator (CAISO) and PacifiCorp formed the western EIM. The western EIM is a five-minute market administered by CAISO. The market utilizes an automatic model to identify the least-cost energy resources to serve real-time customer demand. According to the Company, the western EIM “focuses solely on real-time imbalances and allows EIM entities to retain all balancing responsibilities and transmission provider duties.” *Id.* at 2. Participants in the EIM bid resources into the market,

and the operator dispatches those resources based on marginal price for energy imbalances factoring in load and available generation.

### THE APPLICATION

With the Commission's permission, the Company plans to begin participating in the western EIM in April 2018. The Company claimed that the western EIM will benefit customers through "economic efficiency . . . , savings due to diversity of loads and variability of resources within the expanded [EIM] footprint, reduced operational risk . . . , and ability to better support the integration of renewable resources." *Id.* According to the Company, participation in the EIM could result in net power supply expense savings of \$4.1 to \$5.1 million per year. *Id.* at 4.

The Company also reported that "in order to participate in the western EIM . . . , Idaho Power must incur EIM-related costs, including upfront and ongoing incremental costs as well as software and metering investments necessary for participation." *Id.* at 3. The Company proposed deferral of the expenses into a regulatory asset until they can be amortized into rates once the Company begins participating in the market. *Id.* The Company further sought authorization to recover the costs of joining the western EIM in a future rate proceeding. *Id.* The Company estimated that it will incur incremental costs of \$15.77 million. *Id.* at 4. The Company estimated that it would defer approximately \$1.73 million prior to the April 2018 go-live date, as well as incremental annual ongoing labor, market, and hosted software expenses that will be incurred upon commencement of participation. Tatum Direct at 11. The remainder of the upfront startup costs reflect capital expenditures that will not be deferred, but booked to appropriate capital accounts upon completion of the project in April 2018. *Id.* at 14.

The Company proposed applying a carrying charge to the deferred amounts at the Commission-approved deposit rate until amortization of the deferred amounts begins, at which time the unamortized balance would earn the Company's current Idaho authorized rate of return (similar to the treatment of its other rate base items). *Id.* The Company proposed a 10-year amortization schedule that would begin no earlier than April 2018. Application at 5.

The Company requested that the Commission issue a final Order in this matter by January 31, 2017, in order to facilitate other regulatory requirements prior to the April 2018 go-live date.

## THE COMMENTS

### *1. Commission Staff*

Staff reviewed the analysis performed by the Company's consultant, Energy and Environmental Economics, Inc. (E3), and reviewed the estimate of potential savings from Idaho Power's participation in the EIM (E3 Study). Staff Comments at 3-6. Staff also reviewed the Company's estimates of costs and other benefits. *Id.* at 7-11. Based on its review, Staff concluded that "by employing conservative assumptions and modeling approaches, the study produces quantified benefits that are modest yet sufficient to cover the proposed level of investment." *Id.* at 6.

Staff analyzed the Company's estimated costs of joining the EIM and concluded that they are "sound and a good approximation of actual costs for purposes of the cost/benefit analysis." *Id.* at 7. However, Staff also concluded that the cost estimates were not rigorous enough nor certain enough to be used for determining recovery through rates. *Id.* Staff concluded that "almost all of the cost figures were based on projections and on scopes of work to be determined later." *Id.* For the cost/benefit analysis, Staff noted that "a reasonable margin of error in estimated cost will not drastically effect the outcome of the analysis." *Id.*

Staff reviewed the Company's net present value (NPV) revenue requirement impact analysis, which "calculates the impact to the Company's revenue requirement based on proposed implementation costs and benefits and costs quantified in the E3 baseline scenario." *Id.* at 8 (*see also id.* at 3). Staff concluded that the analysis "was reasonably accurate showing positive net benefits (negative revenue requirement impact) in approximately five years with a total net benefit of \$4.4 million over ten years." *Id.*

Staff also commented on what it described as possible intangible benefits of EIM participation that were not included in the Company's and E3's benefit analysis. *Id.* Staff discussed two in particular: (i) reduced congestion and (ii) reduced need for reserves and improved reliability. *Id.* at 8. Regarding reduced congestion, Staff concluded that while there may be reductions of curtailments from congestion across the region possibly attributable to the EIM, the incremental potential savings to the Company's balancing area at this time are very small. *Id.* at 9. Regarding the need for reserves and reliability, Staff indicated that the Company's participation in the EIM may hold significant benefits in the form of a reduced need to carry reserves due to the ability to share balancing reserves across a wider footprint. *Id.* at 9.

Staff acknowledged that apportioning this benefit among participating Balancing Authorities would be difficult, but cautioned against underestimating the benefit of a potential reduced need to carry reserves. *Id.* at 9.

Staff supported the Company's proposal to track the startup and incremental costs associated with joining the EIM via a deferral account. *Id.* at 12. Staff explained that the long-term benefits will likely outweigh the costs, and that because the customers will receive the benefits, customers should also bear the costs. *Id.* According to Staff, "a deferral account is the appropriate mechanism to capture the initial costs until such time as benefits begin to flow to customers." *Id.* Staff also agreed with the Company's proposal for the Federal Energy Regulatory Commission (FERC) Accounts to be used (Account 182.3, Other Regulatory Assets, for the deferred amounts and Account 407.3, Regulatory Debits, for amortization). *Id.* at 13.

Staff agreed with the Company's proposal that the initial costs should be amortized over a ten-year period because that will result in a reasonable matching of costs and benefits. *Id.* at 13. Staff noted that the Company's NPV revenue requirement cost/benefit analysis reflects positive net benefits over a ten-year period. *Id.* Staff further explained that ten years is a good blend of the normal depreciation periods for the FERC accounts that the initial costs are booked into (specifically referring to software integration capital costs and metering investment). *Id.* Staff also believed that customers will not be harmed by a ten-year amortization period. *Id.*

Staff opposed the Company's proposal to apply a carrying charge to the deferral balance at the customer deposit rate. *Id.* Staff asserted that the ability to defer the costs for future recovery provides a sufficient benefit to the Company without a need for a carrying charge. *Id.* Staff explained that the deferral account preserves all the initial costs for future recovery, compared with the normal ratemaking treatment. Under normal ratemaking treatment, operations and maintenance (O&M) costs would be expensed in the year incurred, and in the next general rate case only prudently incurred ongoing O&M costs would be built into rates. *Id.* at 13-14. Staff believes that not having a carrying charge during the deferral period could further incent the Company to minimize costs. *Id.* at 13.

Staff recommended that the Company cease booking costs to the deferral account at the earlier of when the Company requests recovery of EIM costs and the deferral balance, or the end of 2018. *Id.* at 12. Staff explained that after the EIM participation go-live date, the costs are similar to any other O&M costs that may be included for recovery in a rate proceeding, and that

the existing rate case process will allow the Company the opportunity to recover these costs. *Id.* Staff recognized that the timing of rate proceedings may differ from the go-live date of April 2018, and thus recommended December 2018 as the latest possible deferral month. *Id.* at 13.

Finally, Staff opposed the Company's request for an assurance that the estimated upfront costs associated with participation in the EIM are eligible for recovery when requested. *Id.* at 7, 14. Staff believed that the cost estimates fall short of the "known and measurable" standard because the Company does not have prior experience operating in an EIM-like market and because the cost estimates were developed without complete scopes of work and without a rigorous bidding process. *Id.* at 7 (*citing Idaho Code* § 61-502). Staff also explained that the Commission reserves the right to review actual costs incurred to determine if they were prudently incurred, unless the investment is under special circumstances. *Id.* at 7-8 (*citing Idaho Code* § 61-503). Staff asserted that providing "cost pre-approval removes the incentive for the Company to implement a project in a prudent least-cost manner by removing the possibility of non-recovery of imprudently incurred actual cost." *Id.* at 8. Thus, Staff recommended deferral of costs until actual costs can be determined and reviewed for prudence. *Id.*

## 2. ICIP

ICIP did not oppose the issuance of an Order "acknowledging the expected benefits resulting from [Idaho Power's] participation in the Western EIM." ICIP Comments at 2 (no citation provided for quotation). ICIP also did not oppose an Order authorizing a deferral account for EIM-related costs. *Id.* ICIP

agrees that the Commission may enter a deferred account order to permit the Company to begin to defer its [Idaho] jurisdictional share of EIM-related operations and maintenance expenses and depreciation expenses related to capital investments necessary to implement the EIM for *potential* recovery from customers pursuant to a Commission order in a future rate case.

*Id.* at 2-3 (emphasis in original).

However, ICIP "strongly opposes any order from this Commission authorizing rate recovery of any costs in a future proceeding that have yet to be proven to be prudently incurred." *Id.* at 2. According to ICIP, the prudence of the deferred EIM costs can only be determined in a future rate case, and "ICIP reserves the right to contest said costs to be recovered notwithstanding its position relative to the deferred accounting treatment of those expenses[.]" *Id.* at 3.

### **3. ICL**

ICL analyzed the E3 Study and concluded that it is a conservative estimate of the benefits the Company's customers can expect to receive in at least three ways. ICL Comments at 1. First, the E3 Study assumed RPS requirements that are lower than actual RPS standards recently adopted by California and Oregon, and ICL concluded that expanding RPS requirements in other states will increase Idaho Power's opportunities to sell resources into the market. *Id.* at 1-2. Second, ICL suggested that the E3 Study considered only the net power supply cost impacts from the Company's participation in the EIM, but failed to consider increased opportunities to find least-cost resources across the EIM footprint to maintain system stability. *Id.* at 2. Third, the E3 Study discussed, but did not quantify, potential benefits from reducing the Company's need for flexible reserves to maintain system reliability. *Id.* As a result of its review, ICL considered the E3 Study's assumptions to be conservative.

Further, ICL commented on the E3 Study's inclusion of scenarios for early coal plant closure and possible reduced participation in the EIM. Both scenarios still showed net benefits. *Id.* at 2-3. ICL noted that since the Company filed the Application, at least two other utilities have committed to join the EIM (Sacramento Municipal Utility District and Seattle City Light), further expanding the opportunity to realize benefits. *Id.* at 3. ICL asserted that as a result of these developments and the conservative assumptions of the E3 Study, "the Commission should feel confident Idaho Power customers will benefit from joining the growing EIM regardless of the timing or fate of Valmy." *Id.* at 3.

ICL supported the Company's proposals to defer the costs of joining the EIM and amortize these costs over ten years when collected from customers. *Id.* at 3. ICL indicated that it "looks forward to further process to determine the appropriate way to incorporate [the EIM's] costs and benefits into base rates." *Id.* ICL supported "deferring costs into a regulatory asset, applying the deposit rate, and allowing the benefits to flow through the Power Cost Adjustment" for the time being. *Id.*

### **4. Snake River Alliance**

The Snake River Alliance (the Alliance) explained that participating in the EIM will benefit the Company's customers by providing the Company with additional opportunities to meet short-term needs and five-minute access to the market to meet real-time changes in customer demand. Snake River Alliance Comments at 1. The Alliance agreed with the

Company's claim that the EIM "will benefit customers through economic efficiency . . . savings due to diversity of loads and variability of resources within the expanded (EIM) footprint, reduced operational risk . . . and ability to better support the integration of renewable resources." *Id.* at 2 (*quoting* Order No. 33627 at 2). The Alliance also stated that if the Company's demand response and EIM efforts are properly synchronized, participation in the EIM could enhance the value of the demand response programs. *Id.* The Alliance suggested that the EIM will "encourage greater renewable energy investments, inter-utility cooperation and communications, and transmission benefits that include reduced transmission constraints but also a reduced need for certain new transmission investments." *Id.*

The Alliance recommended that the Commission direct Idaho Power to "more thoroughly define the 'non-financial benefits associated with increased reliability or potential financial benefits due to anticipated reductions in reserves.'" *Id.* at 2 (*quoting* Application at 4). The Alliance asserted that there are "obvious non-financial benefits associated with EIM participation" and it "would like to see those memorialized or acknowledged in the Commission's final order." *Id.* at 2-3.

The Alliance believed recovery of the Company's EIM expenses, including the projected \$1.73 million in startup costs and EIM market entry fee and software integration costs, appear to be prudent and in the best interest of the Company and its customers. *Id.* at 3. The Alliance supported "in principle" the Company's request for authorization to recover EIM-related costs in a future proceeding, but recommended the Commission address cost recovery in more detail in its final Order so that customers can have a better understanding of the timing and magnitude of future rate impacts from this case. *Id.* The Alliance suggested that its recommendation is supported by the uncertainty of the timing and nature of future Company rate cases. *Id.* The Alliance recommended the testimony of the Company's witnesses regarding possible rate and other impacts, including reductions to annual net power supply expense. *Id.*

While the Alliance supported the Company's Application, it disagreed with certain statements of Idaho Power. *Id.* The Alliance differed with the Company's assertion that its system has a finite capability to integrate intermittent sources of generation. *Id.* The Alliance also stated that it does not agree with the Company's allegations regarding the balancing reserve violations occurring during periods of over-generation when Company generation is operating at safe levels, but Company generation plus intermittent generation exceeds customer load. *Id.* at

3-4. The Alliance “reject[ed] the premise that non-hydro renewable energy is the sole culprit” for over-generation, an “annual and now predictable phenomenon.” *Id.* at 4. The Alliance believed that a detailed discussion of the Company’s over-generation challenges is best left for another docket. *Id.*

#### **5. Public Comment**

One member of the public submitted a comment on the Application. The commenter wished “to confirm that power produced in Idaho and sold to higher priced markets will not inadvertently raise the cost of electricity in Idaho.” Comment at 1. The commenter stated that it would be “counterproductive to Idaho consumers to sell off electricity to higher priced markets, potentially raising the prices of electricity here in Idaho.” *Id.* The commenter supported Idaho Power joining the EIM as long as doing so would not contribute to rising electricity costs in Idaho. *Id.*

#### **6. Company Reply**

In its reply comments, the Company provided additional context regarding the study performed by E3, and explained that once participation in the EIM begins, the quantification of actual benefits derived will be based on a quarterly report released by CAISO—not on studies or reports produced by E3. Company Reply Comments at 3-4. The CAISO report (*Quantifying EIM Benefits*) “quantifies the estimated gross benefits achieved by western EIM participants for the previous calendar quarter.” *Id.* at 4. The Company explained that “CAISO determines the total EIM benefit by calculating the cost savings of the EIM dispatch as compared to a counterfactual without EIM dispatch and includes the estimated gross benefits by EIM participant and quarter.” *Id.* The Company further explained that given the cost of contracting with E3 to perform the study, and because the benefit quantification function is already performed by CAISO for EIM participants, the CAISO reports should be used as the basis for benefit determinations. *Id.* The Company requested that if the Commission approves its Application, it include language in the Order acknowledging that the CAISO quarterly reports will be used as the basis for determination of benefits associated with EIM participation. *Id.*

The Company also requested the Commission make clear in its Order that “the Company should only record O&M start-up expenses to the deferral account, not capitalized incremental costs.” *Id.* at 5. The Company explained that its proposal is to treat capitalized investments required for EIM participation in the same manner as any other capital investment—

use the methodology prescribed by FERC's Uniform System of Accounts. *Id.* Under this methodology, capitalized investment amounts would first be recorded in construction work in progress until EIM participation begins, then the costs would be closed to electric plant in service. *Id.* The Company explained that if it were to record capital costs to a regulatory asset account with no carrying charge, it would result in a negative financial impact to the Company relative to the standard treatment of other capital investment. *Id.*

The Company also responded to Staff's proposal that the booking of costs to the deferral account cease "at the earlier of when the Company requests recovery of EIM costs and the deferral balance, or the end of 2018." *Id.* at 5-6. According to the Company, ceasing the deferral of costs at the time the Company requests recovery through an Application with the Commission (before the Company begins actually recovering those costs) would not provide a reasonable opportunity to recover the prudently incurred costs due to the length of time necessary for the regulatory review process prior to recovery through rates. *Id.* at 6. Thus, if the Commission accepts Staff's proposal, the Company "requests that the Commission include language in the order stating that the Company would cease recording costs to the deferral account at the earlier of when the Company *begins* recovery of EIM costs and the deferral balance or the end of 2018." *Id.* (emphasis in original).

### **DISCUSSION AND FINDINGS**

Idaho Power Company is an electric utility. The Commission has jurisdiction and authority over Idaho Power Company and the issues raised in this case pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.* Based on our review of the record, we find it fair, just and reasonable to allow the Company to establish a deferral account in which to track the incremental O&M expenses associated with joining the EIM, as described further below.

We find that the E3 Study employed reasonable assumptions in modeling the potential benefits of the Company's participation in the EIM. We further find that the record and the E3 Study demonstrate that the Company's participation in the EIM would provide an opportunity for benefits greater than costs. Thus, the record shows there is a possibility of a net benefit to the Company's customers. As a result, we conclude that the Company's joining the EIM is reasonable and in the public interest.

Once the Company's participation in the EIM has begun, we will require the Company to provide evidence of any benefits it is receiving from participation and how those benefits are being passed on to customers. The Company will be required to demonstrate benefits based on any information available at the time, including *but not limited to* the quarterly CAISO *Quantifying EIM Benefits* report. We direct the Company to file the CAISO *Quantifying EIM Benefits* report with us when it is released (after the Company's participation in the EIM has begun) and to work with Commission Staff to determine what other information may be available to demonstrate benefits. In addition, we direct the Company to, after one year of participation, provide a report to the Commission describing the costs and benefits of participation. This report should be based on and include any relevant cost and benefit information.

We further find that a deferral account is the appropriate mechanism to capture the initial costs of joining the EIM until such time as benefits begin to flow to customers. We therefore find it fair, just and reasonable to allow the Company to book the O&M expenses associated with joining the EIM to a deferral account.<sup>1</sup> We find that a ten-year amortization period for the deferred costs is a reasonable approach that would result in an appropriate matching of costs and potential benefits. We also find it fair, just and reasonable to allow the Company to record expenses to the deferral account until the earlier of when the Company begins recovery of EIM costs and the deferral balance, or the end of 2018. This timeline recognizes the regulatory review process that will occur before expenses are included in rates.

We decline to apply a carrying charge to the deferred amounts. We find that the ability to defer O&M costs for future recovery, compared to the normal ratemaking treatment, provides sufficient benefit to the Company. A carrying charge in addition to the ability to defer costs would not be in the public interest.

We also decline to provide pre-approval for recovery of Idaho Power's estimated incremental costs of joining the EIM. Our normal practice is to review actual costs to determine whether they were prudently incurred and thus recoverable in rates. Providing pre-approval for *estimated* costs would remove the incentive for the Company to implement the project in a prudent, least-cost manner. Instead, we will determine the recoverability of Idaho Power's actual

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<sup>1</sup> We note that the deferral treatment applies to the O&M expenses of joining the EIM, and not to capital costs, which should be treated as any other capital expenditure.

incremental costs of joining the EIM in a future proceeding, once the actual costs have been incurred.

### **ORDER**

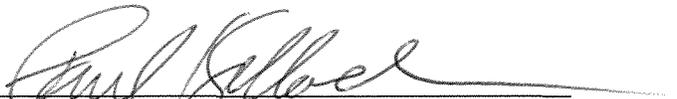
IT IS HEREBY ORDERED that after Idaho Power Company has participated in the EIM for one year, it will file a report with the Commission describing the costs and benefits of participation thus far and other relevant information. Idaho Power is directed to include in this report any available benefit and cost information, including but not limited to the CAISO's quarterly *Quantifying EIM Benefits* report. Idaho Power is further directed to work with Commission Staff to determine what information may be relevant going forward.

IT IS FURTHER ORDERED that Idaho Power is authorized to track the incremental O&M expenses of joining the EIM in a deferral account, with a ten-year amortization period and no carrying charge, as described above. Idaho Power is directed to cease booking costs to the deferral account at the earlier of when the Company begins recovery of EIM costs and the deferral balance, or the end of 2018.

IT IS FURTHER ORDERED that the recoverability in rates of Idaho Power's actual costs incurred to join the EIM will be determined in a future proceeding.

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 with regard to any matter decided in 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 31<sup>st</sup> day of January 2017.

  
PAUL KJELLANDER, PRESIDENT

  
KRISTINE RAPER, COMMISSIONER

  
ERIC ANDERSON, COMMISSIONER

ATTEST:

  
Diane M. Hanian  
Commission Secretary

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