Office of the Secretary
Service Date
March 30, 2012

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF ROCKY MOUNTAIN POWER FOR	)	**CASE NO. PAC-E-12-03**
AUTHORITY TO INCREASE RATES	)	
THROUGH THE ENERGY COST	)	**ORDER NO. 32507**
ADJUSTMENT MECHANISM (ECAM)	)	

On February 1, 2012, PacifiCorp dba Rocky Mountain Power ("Rocky Mountain" or "Company") submitted its annual Energy Cost Adjustment Mechanism ("ECAM") filing in accordance with *Idaho Code* §§ 61-502 and 61-503, and Rule of Procedure 52. On February 15, 2012, the Commission issued a Notice of Application, Notice of Modified Procedure and Notice of Intervention Deadline. *See* Order No. 32461. The Notice established a comment deadline of March 13, 2012. Monsanto Company filed a Petition to Intervene and it was subsequently granted by the Commission. Order No. 32493.

On March 12, 2012, Monsanto filed a Motion to extend the comment deadline until March 20, 2012. The Motion was subsequently granted. *Id.* Monsanto and Commission Staff ("Staff") filed timely comments.[1] On March 23, 2012, Rocky Mountain submitted reply comments.

THE ECAM APPLICATION

A. Background

On September 29, 2009, the Commission issued Order No. 30904 approving the implementation of an annual ECAM. *Id.* at 3. The costs included in the ECAM are net power costs ("NPC"), as defined in the Company's general rate cases and modeled by the Company's GRID model. *Id.* Base and actual NPC are booked into specific FERC accounts. *Id.* at 3-4. The ECAM process allows the Company to credit or collect the difference between the actual NPC incurred to serve its Idaho customers and the NPC collected through rates. *Id.* at 4. Rocky Mountain defers the difference into an ECAM balancing account. *Id.*

The ECAM includes five additional components: (1) an adjustment calculated using the load change adjustment rate ("LCAR"); (2) a credit for SO2 allowance sales; (3) an

[1] The Commission received one customer comment objecting to the proposed rate increase.

adjustment for the accounting treatment of coal stripping costs; (4) a renewable resource "adder" for the renewable resources that are not yet in rate base; and (5) a true-up of Renewable Energy Credit ("REC") revenues, as authorized by the Commission in Order No. 32196. *Id.* at 4-5. The ECAM includes a 90% (customers)/10% (Company) "sharing" arrangement wherein customers pay/receive the increase/decrease in actual NPC compared to base NPC and the utility incurs/retains the remaining 10%. *Id.* at 5, 7.

B. The Current Application

Rocky Mountain requested the Commission approve the recovery of power costs deferred for the period of December 1, 2010 through November 30, 2011. Application at 1. The Company is requesting approval to recover an additional $18.1 million in the deferral balancing account (tariff customers $10.425 million; Agrium $511,600; and Monsanto $7.196 million). *Id.*

To recover its ECAM deferral costs, Rocky Mountain proposes to adjust Schedule 94 (Energy Cost Adjustment rates) to collect approximately $13.0 million over the period beginning April 1, 2012 through March 31, 2013. This represents a rate increase of $2.6 million over the current Schedule 94 rates in effect as approved in Order No. 32216 (Case No. PAC-E-11-07). *Id.* at 2. Rocky Mountain requested an effective date of April 1, 2012, for the proposed Schedule 94 rate changes. *Id.*

Rocky Mountain noted that "effective January 1, 2011, Monsanto and Agrium's loads are included in the calculation of the ECAM balances in this ECAM filing." Application at 5. Pursuant to a stipulation approved by the Commission in Order No. 32432 (Case No. PAC-E-11-12), the Company will amortize and collect Monsanto and Agrium's share of the Commission-approved 2011 ECAM balances over a three-year period. *Id.*

Rocky Mountain did not request a change in the ECAM surcharge rate to recover the full $24.1 million projected to accumulate in the ECAM deferral balancing account. *Id.* at 9. The Company asserted that "approximately $3.0 million of the balance will be recovered through Schedule 94 rates from December 1, 2011 to March 31, 2012." *Id.* The Company stated that it intends to address the remaining balance "in future ECAM filings." *Id.* Rocky Mountain projected that "an increase in the collection rate this year would be followed by a decrease in the rate next year." *Id.*

Included in Rocky Mountain's Application was the direct testimony of Gregory N. Duvall (Director of Net Power Costs) and William R. Griffith (Director of Pricing, Cost of

Service & Regulatory Operations). The Company requested that its Application be processed through Modified Procedure.

STAFF COMMENTS

1. Line Loss. Staff asserted the Company incorrectly used a 4.543% transmission line loss percentage across the entire 12-month deferral period. Staff and the Company agree that this percentage should have only been used for the first 27 days during December 2010 (which corresponds to the effective period for general rate case PAC-E-08-07) and should have used 3.605% for the remaining deferral period (which corresponds to the effective period for general rate case PAC-E-10-07). The net effect of this adjustment was a $2,004 reduction in the total deferral balance from the Company's filing. Staff Comments at 6-7.

Staff also asserted that the change in the transmission line loss percentage changes the allocation of cost in the Company's Application, increasing the ECAM deferral for Monsanto and Agrium by $45,536 and $3,776, respectively, while decreasing tariff customers' deferral by $51,296. The largest effect of the re-allocation was due to the load change adjustment. *Id.* at 7-8. Staff estimated that the incorrect transmission line loss percentage used in calculating the deferral cost would increase the size of Monsanto and Agrium's rates by approximately 0.001 cents/kWh, if the adjusted deferral balances were used. Staff suggested that the impact is so small, that the Schedule 94 rates proposed by the company should be implemented because future deferral balances will be trued up in next year's ECAM. *Id.* at 12.

2. Other Comments. Staff calculated that 92% of the total cost deferral (factoring the 90/10 sharing arrangement) was due to the NPC differential. Staff agreed with the Company that the primary driver was mainly due to lost opportunity sales of wholesale electricity and this was likely due to a drop in wholesale market prices and a reduction in the amount of electricity the Company could sell compared to quantities projected in rate cases. *Id.* at 9.

Staff maintained that the Company's data used to form the costs embedded in base rates for the deferral, except for the incorrect line loss percentage, were established through previous Commission Orders. Staff determined that actual data used to compare against costs embedded in base rates were accurate. Thus, Staff believed that the calculations used by the Company were accurately and correctly applied based on previous Commission Orders and all costs included in the filing were comprehensive and complete. *Id.* at 6.

Staff observed that Rocky Mountain proposed to establish new schedule 94 rates for Agrium at 0.164 cents/kWh and Monsanto at 0.175 cents/kWh while maintaining current rates for all other retail customers. The Company predicted the proposed ECAM rate structure will generate a combined total of $13 million in revenue from April 1, 2012 through March 31, 2013. With the addition of $3 million the Company is predicting to receive in revenue from the previous ECAM case (PAC-E-11-07) and $5.2 million to be collected from contract customer's remaining two-year amortization, Staff confirmed that this leaves a net $2.8 million for future recovery. Staff believed that carrying an unrecovered balance forward to next year's ECAM could result in higher ECAM rates than would otherwise occur. However, in an effort to promote rate stability, the Staff accepted the Company's proposal to maintain existing ECAM rates with the expectation that rates will not increase next year. *Id.* at 12.

In summary, Staff made the following recommendations to the Commission.

1. Accept and approve for recovery Staff's adjusted Idaho ECAM deferral balance of $7,241,861 for Monsanto, $515,409 for Agrium, and $10,374,561 for remaining tariff customers for a grand total of $18,131,830 for the December 1, 2010 through November 30, 2011 deferral period (does not include previously approved second year amortization from last year's load change adjustment).

2. Approve the transmission loss differentiated energy rate to be included in Schedule 94 for Schedule 400 of 0.175 ¢/kWh.

3. Approve the transmission loss differentiated energy rate to be included in Schedule 94 for Schedule 401 of 0.164 ¢/kWh.

4. Approve the continuation of tariff customers' current ECAM rates.

MONSANTO COMMENTS

Monsanto proposed several adjustments to Rocky Mountain's ECAM filing. Monsanto stated that it is open to reaching a settlement of its issues, but if agreement cannot be reached, then it respectfully requests that the Commission "set a hearing, take testimony and decide the issues presented." Monsanto Comments at 2.

1. Line Loss. Monsanto believed that Rocky Mountain "should continue to use similar transmission losses for both Actual and Base Loads for the January through December 2010 time period." *Id.* "Monsanto proposes a 3.605% transmission loss factor be used to determine sales at input for both Monsanto and Agrium Base Loads and Actual Loads for the

months of January through November 2011." *Id.* at 2-3. Monsanto contends that this was the loss factor presented by the Company in its 2010 general rate case (Case No. PAC-E-10-07). *Id.* at 3. Adjusting for transmission line losses at 3.605% for both base load and actual load would result in the following adjustments: tariff customers $722,655; Agrium ($49,805); and Monsanto ($659,725).[2]

2. Losses in Base Load and Actual Load. Monsanto next objected to the "discrepancy" in the transmission loss factor applied to Monsanto and Agrium's base load, 9.885%, as compared to the loss factor applied to actual sales at the "meter," 4.543%. Monsanto believed that this "discrepancy in losses causes the Base Loads to be arbitrarily higher which unfairly raises the Load Change Adjustment Revenues attributable to Monsanto and Agrium." *Id.* However, Monsanto acknowledged that a review of the Company's workpapers suggests that "the extraordinarily high discrepancy between the transmission loss factors for Actual and Base Loads starting in January 2011 was inadvertent by RMP." *Id.*

3. Treatment of Replacement Energy. Next, Monsanto presented its concerns "with how the Company handles Monsanto 'replacement energy' in the ECAM calculations." *Id.* The replacement energy or "buy through energy . . . is a pass-through directly to Monsanto and is priced at an independent third-party index market price adjusted by a set of hourly load shaping scalars which Monsanto pays fully on its monthly invoice." *Id.* Monsanto argued that the "replacement energy should not be subject to the ECAM." *Id.*

Monsanto stated that its position is supported by "RMP's supporting work papers [that] show the Company removed the replacement energy from Monsanto Base Load, however, RMP failed to remove replacement energy from Monsanto Actual Load on line 7 in the month of November 2011." *Id.* at 4. Monsanto calculated that the deferral impact of removing replacement energy from Monsanto's November 2011 actual sales results in the following reductions: tariff customers ($647); Agrium ($45); and Monsanto ($13,821).[3]

4. Wind Integration Costs. Monsanto next asserted that Rocky Mountain "failed to make an adjustment to remove wind integration costs for wholesale wheeling customers from the ECAM adjusted actual NPC." *Id.* at 4. Monsanto cites Order No. 32196 (Case No. PAC-E-10-07) as support for this assertion. In response to Monsanto and PIIC's objections to recovery for

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[2] The Agrium and Monsanto adjustments are calculated prior to the three-year amortization.

[3] *Supra* n.2.

wholesale wheeling customer wind integration costs, the Commission stated: "We find also that the responsibility for recovery of wind integration costs from wholesale transmission customers resides with the Company." Order No. 32196 at 30; Comments at 5.

Monsanto proposes that the Company use the rate of $3.87 per MWh provided by the Company in response to Monsanto's data request "in lieu of the $6.50 rate proposed by PacifiCorp in Case No. PAC-E-10-07." Comments at 5. Monsanto estimated the deferral impact of removing wholesale customer wind integration costs using the Company's latest wind integration rate of $3.87 per MWh was: tariff customers ($126,785); Agrium ($6,805); and Monsanto ($88,772). *See* footnote 2.

5. Liquidated Damages. Finally, Monsanto argued that payments/settlements to contractors for performance issues during planned outages should be removed from ECAM adjusted actual net power costs (NPC). Comments at 5-6. The replacement power costs incurred as a result of contractor performance issues "are recovered by the Company through the annual ECAM deferral." *Id.* at 6. According to Monsanto, this is problematic because "the payments received by the Company during the ECAM test year were either credited to plant or O&M contract costs" but there is no process or "mechanism to pass O&M credits back to customers." *Id.*

Monsanto calculated that "during the ECAM test year the Company received $945,000 of payments/settlements for contractor performance issues." *Id.* The following details were revealed by the Company in its response to Monsanto Data Request 2:

- $300,000 for Huntington Unit 1 ($ 150,000 credited to plant in service in July 2011, $150,000 was used as settlement of a Jim Bridger capital project payment).

- $345,000 was recorded on July 6, 2011 for Wyodak Unit 1 ($276,000 was credited to capital projects and $69,000 was credited to O&M contract costs).

- $300,000 for Bridger Unit 3 ($150,000 was recorded to plant in service on August 18, 2011 and the remaining $150,000 will be reflected as a reduction in prices for the yet to be established 2012 Bridger Unit 4 boiler overhaul).

Thus, Monsanto estimated the deferral impact of crediting liquidated damage payments/settlements to ECAM adjusted actual NPC was: tariff customers ($49,482); Agrium ($1,507); and Monsanto ($20,603). *See* footnote 2.

In summary, the net deferral impact from Monsanto's proposed corrections is: tariff customers $544,674[4]; Agrium ($58,089); and Monsanto ($781,206).

ROCKY MOUNTAIN'S REPLY

Rocky Mountain disagreed with Monsanto's assertion that any disagreement between parties would necessitate filing testimony and setting hearings to resolve issues disputed in the case. The Company believes that the comments and its reply provide the Commission with an adequate record and a hearing is not necessary to decide the disputed issues. Reply at 2-3.

1. Line Loss. Rocky Mountain agrees with Staff and Monsanto that the Company inadvertently did not update the line loss factor used to adjust Idaho actual loads from sales to input level and used a line loss factor of *4.543%* rather than *3.605%,* effective December 28, 2010, to align with the effective date of Case PAC-E-10-07. The Company calculates that updating actual loads based on a 3.605% line loss factor results in the following adjustments: tariff customers ($51,734); Agrium $3,807; and Monsanto $45,922. *Id.* at 3.

2. Base Load Losses. The Company disagreed with Monsanto that different line loss factors used to determine base loads in Case PAC-E-10-07, is an error or that any adjustment should be made to base loads. Rocky Mountain believed all of the base data in the ECAM is determined as part of a general rate case and that Monsanto, Staff and all other parties to the case had the opportunity to review and determine the exactness of the base loads, NPC and all other components. The Company does not believe it is appropriate nor is it a part of the ECAM review to revise any of the base information that has already been established in a prior case. *Id.* at 3-4.

3. Replacement Energy. The Company agreed with Monsanto's position that replacement energy consumed by Monsanto when it buys through curtailment events rather than physically curtail its load should not be part of the ECAM. The Company also concedes that replacement energy was removed from Monsanto base load but was not removed from Monsanto and Idaho jurisdictional actual load. A review of Monsanto invoices revealed that it bought,

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[4] This assumes no adjustment to base load residual calculation. If base load is corrected, this would decrease to $404,849.

through curtailment, in October and November 2011, 5,293 MWh and 9,021 MWh, during curtailment events in the respective months. This replacement energy should be removed from Monsanto actual load as well as actual Idaho jurisdictional load to properly compute the ECAM deferral. The Company calculates that removing the replacement energy from actual load results in the following deferral reductions: tariff customers ($797); Agrium ($56); and Monsanto ($18,812), for a total deferral of ($19,666). *Id.* at 4-5.

4. Wind Integration. The Company disagreed with Monsanto's contention about wind integration. Rocky Mountain believes that the Commission's statement: "*we find also that the responsibility for recovery of wind integration costs from wholesale transmission customers resides with the Company, not its retail customers*" found in Commission Order No. 32196 in rate case No. PAC-E-10-07, does not require the Company to remove non-owned wind integration costs from the ECAM deferral balance. Instead, the Company believed this language was intended to prohibit the recovery of prudent power supply costs that were incurred as a result of its role as a balancing area authority. The Company asserted this quoted sentence indicates that it has an obligation to ensure that it receives compensation through its Open Access Transmission Tariff (OATT) rates for all services it provides to its wholesale customers, including integration. *Id.* at 5-6.

The Company argued that the ECAM is where the Company must recover its wind integration costs, based upon the knowledge that a portion of these prudently incurred costs would be automatically disallowed due to the imposed sharing bands of the ECAM structure. To further disallow wind integration costs beyond the already imposed 10 percent sharing band would be unreasonable. *Id.* at 6-7.

In addition, the Company insisted that Monsanto's estimation of non-owned wind integration cost is incorrect and therefore inappropriately inflates Monsanto's calculation of the non-owned wind integration costs that it proposes to remove from actual net power costs. If wind integration costs are excluded, only the intra-hour cost component, at $2.98/MWh, should be removed, since non-owned wind facilities interconnected to their system are responsible for providing their own inter-hour wind integration services. Adjusting for the intra-hour costs, Rocky Mountain calculates the following reductions: tariff customers ($98,296); Agrium ($5,194); and Monsanto ($67,041). *Id.* at 7-8.

5. Liquidated Damages. The Company also disagreed with Monsanto that liquidated damages should be recognized as an offset to NPC rather than the project cost. The Company maintained that accounting guidelines require that proceeds received for liquidated damages go to property plant and equipment, not NPC in almost all circumstances (See AICPA Guideline TPA 2210.28). The underlying principle in the account guidelines is that unless the customer provides the vendor with an identifiable benefit, the payment received from the vendor is a reduction of the purchase price of the goods purchased from the vendor and not an offset to net power costs. None of the Company's contracts specify NPC as the benefit or determent for a variance in the delivery schedule of the project. Further, references to NPC in construction contract language for liquidated damages is not the industry standard and it is very doubtful that any of the Company's vendors would allow for the inclusion of such language. Thus, the costs should be recorded as a reduction in the purchase price of the project. *Id.* at 8-9.

COMMISSION FINDINGS AND DECISION

The Commission has reviewed the record in this case including the Application and the comments filed by Monsanto, Staff, Rocky Mountain Power and one member of the public.[5] At the outset, the Commission finds that the parties have adequately outlined the issues before the Commission. Thus, the Commission finds that convening a technical hearing accompanied by the filing of testimony would be superfluous and unnecessary in this case. The Company's Application is comprehensive and generally adheres to our prior Orders approving the methodology to be utilized for the recovery of deferred net power costs incurred by the Company. *See* Order No. 32216. Further, we find that the Application is consistent with the terms of the stipulation and settlement approved by the Commission in the Company's last general rate case (PAC-E-11-12), wherein Monsanto (Schedule 400) and Agrium (Schedule 401) agreed to be subject to the ECAM. *See* Order No. 32432.

Given the agreement of the parties, we find it appropriate to adjust the transmission line loss percentage, thereby reducing the Company's ECAM deferral balance during the recovery period by $1,985 and the total ECAM ending deferral balance subject to surcharge collection by $2,004. However, we decline to accept Monsanto's proposed adjustment to apply this line loss adjustment to its base load. The Commission finds that once Monsanto's base load

[5] On March 30, 2012, Monsanto filed "Reply" to Rocky Mountain's Reply Comments. Monsanto's "Reply" was not considered because it was filed after our deliberation in this matter. Moreover, our procedural Rules do not provide for a party to respond to a Reply. See Rule 202.

is established in a general rate case and embedded in base rates, it should not be changed in the ECAM.

We do find it reasonable to adjust the treatment of replacement energy given the Company's agreement with Monsanto's proposal that "replacement energy consumed by Monsanto when it buys through curtailment events rather than physically curtail its load should not be part of the ECAM." Reply Comments at 4. This amounts to a $19,666 reduction in the total ECAM ending deferral balance subject to surcharge collection and a $19,653 reduction in the balance for the deferral period. The Commission finds that this adjustment to the Company's ECAM deferral balance is fair, just and reasonable and should be removed from actual Monsanto and Idaho jurisdictional loads, as well as subsequent Rocky Mountain Power ECAM filings.

The Commission also approves Monsanto's proposal to remove the costs of integrating wind resources from the Company's ECAM filing, but only that portion associated with intra-hour charges. The Commission's approval of this adjustment is supported by our finding in the Company's last general rate case (PAC-E-11-12), wherein we declared that "the responsibility for recovery of wind integration costs from wholesale transmission customers resides with the Company, not its retail customers." Order No. 32196 at 30. We find that the Company adequately demonstrated that inter-hour wind integration costs were removed from actual net power costs; therefore, only intra-hour wind integration costs were used to calculate the adjustment. This adjustment reduces the overall deferral balance subject to surcharge collection by $170,530 (tariff customer ($98,296); Agrium ($5,194); and Monsanto ($67,041)) and reduces the deferral cost for the recovery period by $169,650.[6]

Finally, the Commission declines to implement Monsanto's proposal to offset any potential amount of liquidation damages paid to Rocky Mountain by its construction contractors from the Company's net power costs. We find that the Company's current approach of deducting the amount of liquidated damages from its plant-in-service account is a fair and effective approach to ensure that ratepayers are not subsidizing a potential windfall for the Company.

The Commission also accepts Rocky Mountain's proposal to forego an increase to the current ECAM surcharge rate for all tariff customers, except Monsanto and Agrium, during the

[6] These adjustments are slightly lower than those shown in Monsanto's comments which did not include effects of the transmission line loss adjustment on loads.

current recovery period. The Commission finds that deferring full recovery of the entire projected balance in the ECAM balancing account in future years is reasonable and appropriate given the repeated and frequent rate increases recently experienced by Rocky Mountain's customers.

Based upon the Commission-approved adjustments set out above, Rocky Mountain is authorized to recover $18,131,472 in ECAM costs for the deferral period (tariff customers $10,429,986; Agrium $512,364; and Monsanto $7,189,122).

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over PacifiCorp, d/b/a Rocky Mountain Power, an electric utility, and the issues presented in this case pursuant to Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

The Commission finds that the existing ECAM rates in tariff Schedule 94 are insufficient to allow the Company to recover its net power supply costs in the deferral account. Approving the proposed Schedule 94 will provide Rocky Mountain Power with the opportunity to recover its ECAM costs.

O R D E R

IT IS HEREBY ORDERED that the Commission approves Rocky Mountain Power's Energy Cost Adjustment Mechanism (ECAM) Application conditioned upon the adjustments approved above.

IT IS FURTHER ORDERED that the cost of integrating wind generated by non-Company owned resources delivered outside of Rocky Mountain's service territory be effectively removed from actual net power costs for the purposes of the ECAM.

IT IS FURTHER ORDERED that the Commission approves tariff Schedule 94 as filed by Rocky Mountain Power in its Application to be effective April 1, 2012.

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 30th day of March 2012.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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