

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 13, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE March 8, 2017

DATE: June 6, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *MPM*

THROUGH: Jason Eisdorfer and Marc Hellman *ATGE* 

SUBJECT: IDAHO POWER: (Docket No. UM 1821) Requests authorization to defer expenses associated with Idaho Power's participation in an Energy Imbalance Market.

STAFF RECOMMENDATION:

I recommend that Idaho Power Company's (Idaho Power or Company) application to defer expense-related costs associated with its entrance into the western Energy Imbalance Market (EIM) be approved for the 12-month period beginning March 8, 2017, for accounting purposes only.

DISCUSSION:

Issue

Whether the Commission should approve Idaho Power's request to defer the incremental costs associated with its participation in the EIM.

Applicable Rule and Law

Idaho Power submitted its deferral application on March 8, 2017, in accordance with ORS 757.259 and OAR 860-027-0300. ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities.

Analysis

Background

In its Order No. 14-331, the Commission approved PacifiCorp's request in UM 1689 to use deferred accounting for incurred expenses associated with its entrance into the western EIM.

The EIM is a regional, five-minute wholesale energy market that allows participants to buy and sell the final few megawatts of power to satisfy demand within the hour it is needed. Since its inception in 2014, the EIM has enhanced grid reliability and generated total cost savings of \$173.72 million for participating utilities.¹ Created by the California Independent System Operator (CAISO), the EIM currently covers the balancing authority areas of CAISO, PacifiCorp, NV Energy, Puget Sound Energy and Arizona Public Service. PGE is expected to join the market later this year.

Idaho Power procured Energy and Environmental Economics, Inc. to conduct a study to determine whether benefits could be realized by the Company should it join the EIM. The study included several scenarios that simulated Idaho Power's real-time generation costs as an EIM participant against a scenario simulating its costs and revenues generated through its current power transactions to quantify the projected savings. The results of the study produced a range of savings estimates between \$4.1 and \$5.1 million per year. Idaho Power concludes that its participation in the EIM will result in sustainable power supply cost savings that will benefit customers over the long term.

Description of deferral

In order to participate in the EIM, Idaho Power must incur certain start-up and ongoing incremental costs, including the purchase of software and metering equipment that is necessary for participation. The total estimated up-front costs are \$11.09 million, which includes start-up expenses of approximately \$1.73 million, software integration costs of approximately \$7.88 million, and metering investments that are expected to be \$1.48 million. In addition, the Company expects incremental ongoing labor expenses of approximately \$836,000 for the six additional full-time employees required to perform the operations required for the Company's participation in the EIM.

As part of its review of this application, Staff issued data requests asking the Company to confirm that: a) only expenses and not capital costs are included in the deferral; and b) that the costs included are solely incremental expenses that would not otherwise be incurred without the Company's EIM participation. The Company response indicated that this was the case.

¹ California ISO *Western EIM Benefits Report, First Quarter 2017*

Proposed Accounting

Idaho Power proposes to record expenses in FERC Account 557 (Other Expenses) and FERC Account 923 (Outside Services Employed). The deferred amounts would be recorded in FERC Account 182.3 (Regulatory Assets).

Estimated Deferrals in Authorization Period

Idaho Power estimates the total start-up expenses to be \$1.73 million on a system basis prior to an April 2018 entrance date. On an Oregon-allocated basis, this amounts to approximately \$75,000. For the period authorized by this deferral, March 8, 2017 through March 7, 2018, the estimated deferral amount for Oregon is \$60,000.

Information Related to Future Amortization

- Earnings review – An earnings review must be conducted for amortization of these costs.
- Prudence Review – A prudence review is a requirement of the earnings review and should include the verification of the accounting methodology used to determine the final amortization balance. The prudence review will be held when Idaho Power files for amortization.
- Sharing – One hundred percent of the deferred costs are subject to utility recovery, pending a prudence and earnings review.
- Rate Spread/Design – The Company has not yet specified how costs will be allocated among its retail customers, however Staff's inclination is that costs should be allocated consistent with its Power Cost Adjustment Schedule 55.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

Conclusion

Idaho Power's application requesting deferral of incremental expenses associated with its entrance into the western EIM is consistent with ORS 757.259, OAR 860-027-0300 and with the Commission's previous order authorizing deferred accounting for PacifiCorp's participation in the EIM. As well, Staff believes the Company's participation in the EIM is likely to result in long-term power cost savings for customers. For these reasons, Staff recommends the application be approved.

PROPOSED COMMISSION MOTION:

Approve Idaho Power's request to defer expense-related costs associated with its entrance and participation in the western EIM for the 12-month period beginning March 8, 2017.