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May 12, 2017

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-1088

Re: UE 320 – In the Matter of IDAHO POWER COMPANY’s 2016 Annual Power Supply Expense True-Up

Attention Filing Center:

Attached for filing in the above-captioned docket is the Joint Explanatory Brief. The Stipulation is being filed concurrently in this docket.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo
Office Manager

Attachment

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UE 320**

4 In The Matter of
5 IDAHO POWER COMPANY
6 2016 Annual Power Supply Expense
7 True-Up.

JOINT EXPLANATORY BRIEF

8 This brief explains and supports the Stipulation filed in this proceeding on May 12, 2017,
9 among Idaho Power Company (“Idaho Power” or “Company”), the Oregon Citizens’ Utility Board
10 (“CUB”), and Staff of the Public Utility Commission of Oregon (“Staff”) (together, the “Stipulating
11 Parties”). The Stipulation resolves all issues raised by the Stipulating Parties related to Idaho
12 Power’s 2016 Annual Power Supply Expense True-Up (“True-Up”). This True-Up implements
13 the Company’s Power Cost Adjustment Mechanism (“PCAM”) by calculating the deviation
14 between actual net power supply expenses (“NPSE”) and those expenses recovered through
15 the Combined Rate.

16 **I. BACKGROUND**

17 **A. Idaho Power’s PCAM.**

18 In Order No. 08-238, the Public Utility Commission of Oregon (“Commission”) approved
19 Idaho Power’s PCAM.¹ As part of the Commission-approved PCAM, each February Idaho
20 Power must file a True-Up that calculates the difference between the actual NPSE incurred by
21 the Company in the relevant PCAM year (January through December) and the expenses
22 recovered for that period through the Combined Rate.² NPSE deviations that are eligible, as

23 ¹ *Re Idaho Power Company’s Application for Authority to Implement a Power Cost Adjustment*
24 *Mechanism*, Docket No. UE 195, Order No. 08-238 (Apr. 28, 2008). The PCAM was amended by Order
25 No. 09-373. *Re Idaho Power Company’s Application for Authority to Implement a Power Cost Adjustment*
Mechanism, Docket No. UE 195, Order No. 09-373 (Sept. 18, 2009).

26 ² Order No. 08-238 at 2-3. The “Combined Rate” is determined annually in the Company’s Annual Power
Cost Update (“APCU”) proceeding. The Combined Rate has two components—an “October Update” and
a “March Forecast.” The October Update contains the Company’s forecasted net power supply expense

1 determined by the terms of Order No. 08-238, are added to the Annual Power Supply Expense
2 True-Up Balancing Account (“True-Up Balancing Account”) at the end of each 12 month period
3 ending in December along with 50 percent of the annual interest calculated at the Company’s
4 authorized cost of capital.³ To be eligible for inclusion in the True-Up Balancing Account, the
5 NPSE deviation must fall outside the NPSE deadband⁴ and pass the earnings test described in
6 Order No. 08-238.⁵

7 **B. The 2016 True-Up.**

8 On February 24, 2017, Idaho Power filed its True-Up reflecting the NPSE deviation for
9 calendar year 2016.⁶ The Company’s initial filing used the most recent Oregon Results of
10 Operations (“ROO”) report available at the time of the filing—the ROO for 2015.⁷ The NPSE
11 deviation was \$52.34 million on a system-wide basis, or \$2.39 million (there were no SO₂
12 Allowance sales in calendar year 2016) on an Oregon allocated basis—meaning that the
13 Company under-recovered its actual NPSE.⁸ The upper NPSE deadband, calculated using the

14

15

16 reflected on a normalized and unit basis for an April through March test period. The March Forecast
17 contains the Company’s net power supply expense based upon updated actual forecasted conditions.
The rates from the October Update and March Forecast are combined into the “Combined Rate,” which
is effective on June 1 of each year.

18

³ *Id.*

19

⁴ *Id.* at 3-4. The NPSE deadband is based upon the Company’s capital structure and the rate base,
measured on an Oregon basis, from the most recent Oregon ROO report. The Oregon Allocated Power
Cost Deviation is compared to the positive and/or negative deadbands. A positive deviation (actual NPSE
greater than those recovered through the Combined Rate) constitutes an excess power supply expense.
This expense is first reduced by a deadband that is the dollar equivalent of 250 basis points of ROE
(Oregon basis). A negative deviation (actual NPSE less than those recovered through the Combined
Rate) is a power supply expense savings. This savings is reduced by a deadband that is the dollar
equivalent of 125 basis points of ROE (Oregon basis).

20

⁵ *Id.* If the Company’s earnings are within 100 basis points of its authorized ROE for the previous year
ending December 31, then no amounts will be added to the True-Up Balancing Account even if the NPSE
deviation falls outside the NPSE deadbands.

21

⁶ See Idaho Power/100-103.

22

⁷ Idaho Power/100, Waites/2.

23

⁸ Idaho Power/100, Waites/4-5, 7.

1 2015 ROO, was \$2.79 million.⁹ This deadband applies when actual NPSE is greater than NPSE
2 recovered in rates. The lower NPSE deadband was negative \$1.39 million and applies when
3 actual NPSE is less than NPSE recovered in rates.¹⁰ Because the NPSE deviation indicated
4 that the actual NPSE was greater than the NPSE recovered in rates, the upper deadband was
5 applied. The Oregon-allocated NPSE deviation was within the NPSE deadbands calculated
6 using the 2015 ROO, *i.e.*, the actual NPSE deviation of \$2.39 million was less than the upper
7 deadband of \$2.79 million.¹¹ Therefore, the Company's initial filing determined that \$0.00
8 should be added to the True-Up Balancing Account.¹²

9 This initial filing also discussed the impact of Order No. 11-086, which addressed the
10 appropriate treatment of proceeds from the sale of Renewable Energy Credits ("RECs").¹³
11 Consistent with the Company's approach in each True-Up since Order No. 11-086, Idaho Power
12 proposed that these proceeds are applied to the deferral currently in amortization.¹⁴

13 On March 3, 2017, CUB filed its Notice of Intervention. On April 11, 2017, Administrative
14 Law Judge Patrick Power held a prehearing conference at which the parties to this docket
15 agreed upon a limited procedural schedule, based on the likelihood that the parties would settle
16 this matter.¹⁵

17 As required by Order No. 09-373, on March 24, 2017, the Company filed supplemental
18 testimony that calculated the deadband using the Company's 2016 ROO report, which was
19 finalized after the initial February filing.¹⁶ The use of the 2016 ROO resulted in changes to the

20 ⁹ Idaho Power/100, Waites/6.

21 ¹⁰ *Id.*

22 ¹¹ *Id.*

23 ¹² Idaho Power/100, Waites/6.

24 ¹³ Idaho Power/100, Waites/7; *Re Application of Idaho Power Company to Sell RECs*, Docket UP 269,
Order No. 11-086 (Mar. 15, 2011).

25 ¹⁴ Idaho Power/100, Waites/7.

26 ¹⁵ See Prehearing Conference Memorandum (Apr. 11, 2017).

¹⁶ See Idaho Power/200-203.

1 upper and lower power supply expense deadband values resulting in an upper deadband of
2 \$3.02 million and a lower deadband of negative \$1.51 million.¹⁷ The use of the 2016 ROO also
3 changed the Oregon allocation factor used to determine the Oregon allocated NPSE deviation,
4 resulting in an NPSE deviation of \$2.44 million (there were no SO₂ Allowance sales in calendar
5 year 2016).¹⁸ Applying the new deadband values to the new NPSE deviation, however, did not
6 change the ultimate result—the Oregon-allocated power supply deviation of \$2.44 million was
7 still less than the upper deadband of \$3.02 million.¹⁹ Thus, after updating the analysis using
8 the 2016 ROO the Company determined that \$0.00 should be added to the True-Up Balancing
9 Account.²⁰

10 Pursuant to the agreed upon schedule Staff, CUB, and the Company participated in a
11 settlement conference on May 1, 2017. As a result of the settlement discussions, the Stipulating
12 Parties have agreed to the terms of the Stipulation.

13 II. DISCUSSION

14 A. Terms of the Stipulation.

15 In the Stipulation, the Stipulating Parties agree that the Company has appropriately
16 calculated the amount of the True-Up for later inclusion in rates as \$0.00 and that this calculation
17 complies with the terms of Order Nos. 08-238 and 09-373.²¹ Thus, the Stipulating Parties agree
18 that the Company will not add any NPSE deviation amounts to the True-Up Balancing Account
19 for 2016.²²

22 ¹⁷ Idaho Power/200, Waites/2.

23 ¹⁸ *Id.*

24 ¹⁹ *Id.*

25 ²⁰ Idaho Power/200, Waites/1-3.

25 ²¹ Stipulation at ¶ 8.

26 ²² *Id.*

1 The Stipulating Parties also agree that the 2016 net proceeds from the sale of RECs
2 should be applied as a credit to the True-Up Balancing Account, consistent with Order No. 11-
3 086.²³

4 Finally, the Company has also agreed to provide workpapers with its initial and
5 supplemental Annual Power Supply Expense True-Up filings to allow Staff and CUB a more
6 streamlined review process.²⁴

7 **B. The Stipulation Will Result in Just and Reasonable Rates.**

8 The Commission will adopt a stipulation if it is supported by competent evidence in the
9 record, appropriately resolves the issues in a case, and results in just and reasonable rates.²⁵
10 When evaluating the rates, the Commission examines “the reasonableness of the overall
11 rates.”²⁶ Here, the Stipulation satisfies these standards.

12 First, the Stipulation is supported by the record, which includes the Company’s testimony
13 and exhibits describing exactly how it calculated the deviation between actual NPSE incurred
14 by the Company in 2016 (January through December) and the expenses recovered for that
15 period through the Combined Rate.²⁷ Staff and CUB conducted a thorough investigation of the
16 Company’s testimony and exhibits and participated in the settlement conference. As a result of
17 their investigation, Staff and CUB concluded that there were no issues in the Company’s filing
18 that warranted filing responsive testimony. Although Staff and CUB have not filed testimony,

19 ²³ Stipulation at ¶ 9.

20 ²⁴ Stipulation at ¶ 10.

21 ²⁵ See *Re PacifiCorp’s 2010 Transition Adjustment Mechanism*, Docket UE 207, Order No. 09-432 at 6
22 (Oct. 30, 2009) (“The Commission concludes that the Stipulation is an appropriate resolution of all primary
23 issues in this docket.”); *Re PacifiCorp Request for a General Rate Revision*, Docket UE 210, Order No.
24 10-022 at 6 (Jan. 26, 2010) (“When considering a stipulation, we have the statutory duty to make an
independent judgment as to whether any given settlement constitutes a reasonable resolution of the
issues.”); *Re PacifiCorp Request for a General Rate*, Docket UE 217, Order No. 10-473 at 7 (Dec. 14,
2010) (“We have reviewed the Stipulation, and find that it will result in rates that are fair, just, and
reasonable.”).

25 ²⁶ *Re Application of Portland General Electric Co. for an Investigation into Least Cost Plant Retirement*,
Docket DR 10 et al., Order No. 08-487 at 7-8 (Sept. 30, 2008).

26 ²⁷ Idaho Power/100-103; Idaho Power/200-203.

1 the Stipulating Parties agree that the record in this case is sufficient to support a finding that the
2 Stipulation is reasonable and should be adopted.

3 Second, the Stipulating Parties agree that the Company appropriately calculated the
4 amount of the True-Up for later inclusion in rates as \$0.00 and that this calculation complies
5 with the terms of Orders Nos. 08-238 and 09-373.²⁸ Because the Company's filed case reflects
6 correct calculations that conform to Commission precedent, the resulting rates are just and
7 reasonable and fall within the "range of reasonableness" for resolution of these issues.²⁹

8 **C. Treatment of REC Proceeds.**

9 The 2016 REC proceeds exceed the balance in the True-Up Balancing Account. The
10 Stipulating Parties agree that the 2016 net proceeds from the sale of RECs should be applied
11 as a credit to the remaining balance in the True-Up Balancing Account,³⁰ consistent with Order
12 No. 11-086.³¹ The amounts that exceed the True-Up Balancing Account balance will flow back
13 to customers beginning June 1, 2017, as part of the PCAM. Beginning with the 2017 REC net
14 proceeds, Idaho Power anticipates all previous deferrals will be fully amortized and the
15 Company will apply the proceeds as a credit to the True-Up Balancing Account as part of the
16 PCAM.

17 **D. Staff Analysis Supporting the Stipulation.**

18 Staff has reviewed the Company's filing and submitted six data requests in this docket.
19 Staff finds that the NPSE deviation and deadbands have been correctly calculated and \$0.00 is
20 the correct amount of NPSE deviation to add to the True-up Balancing Account.

21 _____
22 ²⁸ Stipulation ¶ 8.

23 ²⁹ See *Re US West*, Docket UM 773, Order No. 96-284 at 31 (Nov. 1, 1996).

24 ³⁰ The balance in the account resulted from the 2008 PCAM.

25 ³¹ Stipulation at ¶ 9; Order No. 11-086 at 2 ("Idaho Power will record all net proceeds from the sale of
26 RECs in a regulatory liability account to accrue interest at the Company's authorized cost of capital. Net
REC proceeds shall be applied as a credit to the Annual Power Supply Expense True-up Balancing
Account as part of the Power Cost Adjustment Mechanism (PCAM) after all variances (including
deadbands and earnings review), less 10 percent of proceeds which may be retained by the Company.").

1 **E. CUB's Analysis Supporting the Stipulation.**

2 CUB reviewed the Company's filing and participated in the settlement conference. CUB
3 agrees that the filing demonstrates that the variation between actual power costs and forecasted
4 power costs falls within the Annual Power Supply Expense True-Up Mechanism's deadband.
5 Therefore, no rate change is required. Accordingly, CUB recommends the Commission
6 approve the Stipulation.

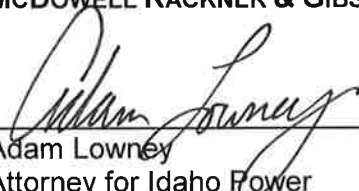
7 **III. CONCLUSION**

8 For all of the above reasons, the Stipulating Parties request that the Commission approve
9 the Stipulation and the resulting rates.

10 Respectfully submitted,

11 **MCDOWELL RACKNER & GIBSON PC**

12 DATED: May 12, 2017.

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