ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 2, 2019

REGULAR ____ CONSENT _X_ EFFECTIVE DATE _____January 1, 2019_____

DATE: June 10, 2019

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Jason Eisdorfer and John Crider **SIGNED**

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1464(8 and 9)) Requests reauthorization to defer Net Power Cost Variances.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Idaho Power Company's (Idaho Power or Company) request to defer variances in its collection of net power costs for the two annual periods of January 1, 2018 through December 31, 2018, and for January 1, 2019 through December 31, 2019.

DISCUSSION:

Issue

Whether Idaho Power should be allowed to continue to defer costs for variances in the annual net power costs pursuant to Commission Order No. 08-238 and Idaho Power Tariff Schedule 56.

Applicable Law

In accordance with ORS 757.210, and ORS 757.259, utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs. OAR 860-027-0300(4) requires the utility to provide certain information in an application to defer, such as the reason for the deferral, estimated amount of the deferral, etc. Previous approval of this deferral was most recently granted by Order No. 17-103.

Analysis

Description of Expense:
By Order No. 08-238, the Commission approved an annual Power Cost Adjustment Mechanism (PCAM) for Idaho Power. With this deferral application, Idaho Power seeks authorization from the Commission to accrue, for future amortization, the difference between actual annual net variable power costs and the annual net variable power costs forecasted pursuant to Tariff Schedule 56, in accordance with Order No. 08-238. The annual variance will be determined pursuant to the terms of Schedule 56, which includes a Power Supply Expense Deadband and an Earnings Test.

Also included in this deferral are operations and maintenance expense associated with the Company's participation in the EIM.

Current filings:
The Company filed UM 1464(8) on December 27, 2017. The filing noted that incremental capital costs associated with the Company's participation in the Energy Imbalance Market (EIM) may also be included in the deferral. Such costs would include the return on net rate base from capital investments, depreciation expense and ongoing operations and maintenance expense. The filing acknowledged the Commission's pending decision in docket UM 1909, which considered the Commission's authority to defer capital costs, may not allow for these costs to be included in the deferral. Subsequently, in Order No. 18-423, the Commission determined that costs associated with capital investment may not be deferred. However the Order suggests that alternative ratemaking tools may be utilized to ensure the recovery of capital costs.[1]

In its most recent reauthorization request, UM 1464(9), Idaho Power requested the Commission provide for EIM capital cost recovery by issuing a regulatory accounting order under ORS 757.125, allowing the Company to record capital costs associated with EIM implementation as a regulatory asset that would track the costs for later recovery. However, the Company now acknowledges that such an order is not necessary. Rather than tracking or deferring capital costs for inclusion in a subsequent true-up, the Company will include costs of capital investment for EIM in its forecasted power costs in its Annual Power Cost Update (APCU). However, the Company will only include costs in the APCU for capital investment after the underlying projects are in service.

In Idaho Power's 2018 APCU filing, docketed as UE 333, the parties jointly agreed in the final approved settlement to recover a forecast of both operations and maintenance,

[1] See *Investigation of the Scope of the Commission's Authority to Defer Capital Costs,* Docket No. UM 1909, Order No. 18-423, p.9.

and capital costs associated with the EIM. A similar agreement has been tentatively reached in the 2019 APCU, UE 350.

Reason for Deferral
The net variable power cost deferral will minimize the frequency of rate changes and more appropriately match the costs borne by and the benefits received by ratepayers pursuant to ORS 757.259(2)(e).

Proposed Accounting
Idaho Power proposes to record the deferred amount in FERC Account 182.3 (Regulatory Assets) and credit FERC Account 557 (Other Expenses) if there is an amount to collect from customers. If there is a refund due to customers, the Company will record the deferred amount in FERC 254 (Regulatory Liabilities); debiting FERC 557 (Other Expenses). In the absence of deferred accounting approval, Idaho Power will record costs associated with the net variable power cost deferral to FERC 501 (Fuel), FERC 547 (Fuel), FERC 447 (Sales for Resale), and FERC 555 (Purchased Power).

Estimate of Amounts
In its filing, the Company states that the amount actually deferred is a function of several unknown and unpredictable factors including customer usage, the wholesale market price for electricity, and the wholesale market price for natural gas. Because the amount of the deferral is dependent on factors that cannot be precisely forecast, Idaho Power cannot provide a precise estimate. Idaho Power requests that, in accordance with Order No. 05-1070, it be allowed to accrue interest on the unamortized balance at a rate equal to its authorized weighted average cost of capital most recently approved by the Commission.

Idaho Power has also provided workpapers detailing prior period activity pursuant to OAR 860-027-0300(4). Staff has reviewed the workpapers associated with the 2018 period and agrees that the Company's accounting methodology appears to be sufficient. Any necessary amortization would be accomplished in a change to Schedule 56 during a subsequent proceeding.

<u>Information Related to Future Amortization</u>

- Earnings review –Schedule 56 requires an earnings review.

- Prudence Review – A prudence review is a required component of an earnings review, and should include a verification of the accounting methodology used to determine the final amortization balance.

- Sharing – Sharing is subject to the terms of Schedule 56.

- Rate Spread/Design – The net variable power cost deferral amortization amount will be spread on an equal cents per kWh basis, as specified in Schedule 56.

- 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. Because Idaho Power is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit.

Conclusion

The rationale for this deferral is still valid, and the Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300. Idaho Power also requested that, in accordance with Order No. 05-1070, it be allowed to accrue interest on the unamortized balance at a rate equal to its authorized weighted average cost of capital most recently approved by the Commission. This is the interest treatment that has been approved historically by the Commission. Staff recommends the Company's application be approved.

PROPOSED COMMISSION MOTION:

Approve Idaho Power's request to defer variances in its collection of net power costs for the two annual periods of January 1, 2018 through December 31, 2018, and for January 1, 2019 through December 31, 2019.