



WENDY MCINDOO
Direct (503) 290-3627
wendy@mrg-law.com

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VIA ELECTRONIC FILING

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

Re: UE 314 – In the Matter of IDAHO POWER COMPANY's 2017 Annual Power Cost Update

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 314**

4 In the Matter of:

5 IDAHO POWER COMPANY

6 2017 ANNUAL POWER COST UPDATE

JOINT EXPLANATORY BRIEF

7 This brief explains and supports the Stipulation filed in this proceeding on April 28, 2017,
8 among Idaho Power Company (“Idaho Power” or “Company”), the Oregon Citizens’ Utility Board
9 (“CUB”), and Staff of the Public Utility Commission of Oregon (“Staff”) (together, the “Stipulating
10 Parties”). This Stipulation resolves all issues raised by the Stipulating Parties related to Idaho
11 Power’s 2017 Annual Power Cost Update (“APCU”).

12 **I. BACKGROUND**

13 **A. Idaho Power’s APCU and Power Cost Adjustment Mechanism.**

14 In Order No. 08-238 the Commission approved an automatic adjustment clause that
15 allows Idaho Power to annually update its net power supply expense (“NPSE”) included in
16 rates.¹ This automatic adjustment clause is referred to as the APCU and has two components—
17 an “October Update” and a “March Forecast.” The October Update contains the Company’s
18 forecasted NPSE reflected on a normalized per-unit basis for an April through March test period.
19 The March Forecast contains the Company’s NPSE based upon updated actual forecasted
20 conditions. The mechanism allows for the rates from the October Update and March Forecast
21 to become effective on June 1 of each year.

22 Pursuant to Order No. 10-191, the Company allocates the APCU revenue requirement to
23 individual customer classes on the basis of the total generation-related revenue requirement
24

25 ¹ *Re Idaho Power Company’s Application for Authority to Implement a Power Cost Adjustment*
26 *Mechanism*, Docket No. UE 195, Order No. 08-238 (Apr. 28, 2008).

1 approved in the Company's last general rate case, instead of the equal cents per kilowatt-hour
2 approved in Order No. 08-238.² Order No. 10-191 also directs the Company to adjust its base
3 rates to reflect changes in revenue requirement related to the October Update, while the rates
4 resulting from the March Forecast are listed on Schedule 55.

5 **B. The 2017 October Update.**

6 On October 28, 2016, Idaho Power filed testimony and exhibits for the 2017 October
7 Update component of the APCU ("2017 October Update").³ Pursuant to Order No. 08-238 the
8 2017 October Update updated the following variables: (1) fuel prices and transportation costs,
9 (2) Public Utility Regulatory Policies Act of 1978 ("PURPA") expenses, (3) normalized load and
10 normalized sales, (4) contracts for wholesale power and power purchases and sales, (5) forward
11 price curve, (6) heat rates, (7) planned outages and forced outage rates, and (8) the Oregon
12 state allocation factor.⁴

13 The test period for the 2017 October Update was April 2017 through March 2018 and
14 included updates to the above referenced variables for all Company owned resources and
15 updated sales and load forecasts.⁵ The 2017 October Update specifically accounted for
16 changes in natural gas and coal prices, and generation and expenses related to contracts
17 entered into pursuant to PURPA.⁶

18 The filed 2017 October Update resulted in a cost per unit of \$26.06 per megawatt-hour
19 ("MWh"), representing an increase of \$2.13 per MWh over last year's October Update.⁷ The
20 2017 October Update also included the Company's proposed method of allocation, which was

21 ² *Re Idaho Power Company's 2010 Annual Power Cost Update*, Docket No. UE 214, Order No. 10-
22 191 (May 24, 2010).

23 ³ See Idaho Power/100-108.

24 ⁴ Idaho Power/100, Blackwell/4-5.

25 ⁵ Idaho Power/100, Blackwell/2 and 5.

26 ⁶ Idaho Power/100, Blackwell/5-11.

⁷ Idaho Power/100, Blackwell/14.

1 consistent with the revenue spread methodology approved by the Commission in Order No. 10-
2 191.⁸

3 On December 1, 2016, Administrative Law Judge (“ALJ”) Allan Arlow held a prehearing
4 conference at which the parties to docket UE 314 agreed upon a procedural schedule that would
5 allow the Public Utility Commission of Oregon (“Commission”) to issue an order on Idaho
6 Power’s 2017 APCU prior to June 1, 2017.⁹ On November 2, 2016, CUB filed its Notice of
7 Intervention.

8 Staff and CUB served discovery on Idaho Power and conducted a thorough investigation
9 of the 2017 October Update. On January 31, 2017, Staff filed Opening Testimony and found
10 that Idaho Power’s filing followed all of the applicable rules and orders.¹⁰ Staff’s testimony,
11 however, raised concerns related to the following: (1) the forecast of oil, handling, administrative
12 and general (“OHAG”) expenses, (2) the jurisdictional allocation of NPSE, (3) Idaho Power’s
13 review of the Jim Bridger Plant’s (“Bridger”) fuel supply, (4) Bridger Coal Company (“BCC”) coal
14 costs, (5) Idaho Power’s review of the depreciation policy for BCC, and (6) supporting
15 workpapers.¹¹ CUB did not file Opening Testimony.¹²

16 Idaho Power filed Reply Testimony on March 3, 2017, in which the Company responded
17 to all concerns raised by Staff.¹³ In Reply Testimony, the Company accepted Staff’s
18 recommendation regarding the forecast of OHAG expenses at the Company’s coal-fired
19 facilities. The Company disputed Staff’s concerns regarding Bridger’s fuel supply, BCC coal
20 costs and the depreciation policy for BCC. Also, the Company agreed to work collaboratively

21 ⁸ Idaho Power/100, Blackwell/17-18; Idaho Power/107.

22 ⁹ *Re Idaho Power Company’s 2017 Annual Power Cost Update*, Docket No. UE 314, Prehearing
23 Conference Memorandum at 1 (Dec. 1, 2016).

24 ¹⁰ Staff/100, Gibbens/2; Staff/200; Staff/300.

25 ¹¹ Staff/100; Staff/200; Staff/300

26 ¹² *See Re Idaho Power Company’s 2017 Annual Power Cost Update*, Docket No. UE 314, CUB’s
Letter (Jan. 31, 2017).

¹³ *See* Idaho Power/200.

1 with Staff and CUB regarding the provision of workpapers and the concern related to the
2 jurisdictional allocation of NPSE.

3 **C. The 2017 March Forecast.**

4 On March 24, 2017, Idaho Power filed the 2017 March Forecast component of the APCU
5 (“2017 March Forecast”). The 2017 March Forecast consisted of testimony describing the
6 Company’s estimate of the expected NPSE for the upcoming water year—April 2017 through
7 March 2018.¹⁴ Order No. 08-238 calls for the March Forecast to update the following variables:
8 fuel prices, transportation costs, wheeling expenses, planned and forced outages, heat rates,
9 forecast of normalized sales and loads updated for significant changes since the October
10 Update, forecast hydro generation, wholesale power purchase and sale contracts, forward price
11 curve, PURPA expenses, and the Oregon state allocation factor. For the 2017 March Forecast,
12 the variables that had changed since the October Update were: (1) fuel prices, (2) planned
13 outage schedule, (3) heat rates, (4) forecast of hydro generation from stream flow conditions
14 using the most recent water supply forecast from the Northwest River Forecast Center (“NRFC”)
15 and current reservoir levels, (5) known power purchases and surplus sales made in compliance
16 with the Company’s Energy Risk Management Policy, (6) forward price curve, and (7) PURPA
17 contract expenses.¹⁵

18 The fuel prices were updated to reflect changes in forecast natural gas and coal costs.¹⁶
19 The decrease in the per-unit costs of generation for the Boardman and North Valmy power
20 plants (“Boardman”) and (“Valmy”) were attributed to lower coal costs, and the increase in the
21 per-unit cost of generation for Bridger was driven by an increase in coal costs and lower
22 production volumes.¹⁷ Pursuant to the 2016 APCU stipulation, the Company included within

23 ¹⁴ Idaho Power/300-305.

24 ¹⁵ Idaho Power/300, Blackwell/4.

25 ¹⁶ Idaho Power/300, Blackwell/4-7.

26 ¹⁷ Idaho Power/300, Blackwell/5.

1 the AURORA model the per-MWh OHAG expenses driven by Idaho Power's dispatch of each
2 coal plant. The Company separately accounted for its fixed proportional share of the total OHAG
3 expenses incurred at each of the coal plants.¹⁸ As mentioned previously, in Reply Testimony,
4 the Company accepted Staff's proposed methodology for forecasting OHAG expenses, and
5 applied this methodology in the March Forecast. Forecast natural gas prices increased as a
6 result of higher demand and lower gas supply nationally.¹⁹

7 The Company updated the hydro forecast.²⁰ Expected streamflows into Brownlee
8 Reservoir were 64 percent higher than last year's levels and 39 percent higher than the 30-year
9 average.²¹ Hydro generation was greater than last year's modeled generation, but the increase
10 was not more substantial because of the impact of flood control operations for Brownlee
11 Reservoir and the capacity limitations of generation units, which at times, causes excess water
12 to be spilled rather than used for generation.²²

13 The 2017 March Forecast also included decreased PURPA expenses compared to the
14 October Update. This was due primarily to the expiration of the Magic Valley Energy Sales
15 Agreement in November 2016 and also to a reduction in forecast generation of three wind
16 projects.²³

17 For the March Forecast, the Company calculated the Oregon jurisdictional revenue
18 requirement using the system total per-unit cost for the test period, rather than the incremental
19 per-unit cost, as proposed by Staff in Opening Testimony.²⁴

20

21 ¹⁸ Idaho Power/300, Blackwell/5-6.

22 ¹⁹ Idaho Power/300, Blackwell/6.

23 ²⁰ Idaho Power/300, Blackwell/8.

24 ²¹ Idaho Power/300, Blackwell/8-9.

25 ²² Idaho Power/300, Blackwell/13.

26 ²³ Idaho Power/300, Blackwell/7.

²⁴ Staff/200, Kaufman/4

1 The Company calculated a March Forecast rate of \$0.24 per MWh, which is \$1.10 per
2 MWh less than last year's March Forecast rate of \$1.34 per MWh.²⁵ Combining the 2017
3 October Update and 2017 March Forecast resulted in an overall proposed revenue increase of
4 approximately 1.27 percent, or \$0.7 million.²⁶

5 The 2017 March Forecast also included the Company's proposed rate spread used to
6 spread the revenue requirement to the various customer classes. The Company's proposed
7 allocation conformed to the methodology approved by the Commission in Order No. 10-191.²⁷

8 Again, Staff and CUB issued discovery and conducted a thorough investigation.
9 Settlement conferences and workshops were held on January 12, February 16, March 6, and
10 April 10, 2017.

11 Ultimately the Stipulating Parties resolved all the issues in this case through these
12 discussions. Thereafter Idaho Power moved to suspend the schedule, and ALJ Arlow granted
13 the motion.²⁸

14 II. DISCUSSION

15 A. Terms of the Stipulation.

16 The Stipulating Parties agree that Idaho Power will adopt Staff's proposed methodology
17 for forecasting OHAG expenses for the 2017 March Forecast and all future APCU filings.²⁹ The
18 OHAG forecast will be based on a three-year historical average of actual OHAG costs, with a
19 growth (reduction) rate equal to the five-year historical average growth (reduction) rate. The
20 OHAG forecast will be updated annually as part of the March Forecast of the APCU.

21
22 ²⁵ Idaho Power/300, Blackwell/14.

23 ²⁶ CORRECTED Idaho Power/300, Blackwell/17.

24 ²⁷ Idaho Power/300, Blackwell/15-16; Idaho/304.

25 ²⁸ *Re Idaho Power Company's 2017 Annual Power Cost Update*, Docket No. UE 314, Ruling (Apr.
12, 2017).

26 ²⁹ Stipulation ¶ 23.

1 The Stipulating Parties also agree that Idaho Power will track revenues associated with
2 usage charges paid to the Company by NV Energy, its ownership partner in the Valmy coal-
3 fired generating plant, for its dispatch of Idaho Power's unused capacity.³⁰ The Company will
4 also track any usage charges paid by Idaho Power to NV Energy for the dispatch of NV Energy's
5 unused capacity. Idaho Power will include the three-year historical average of actual net
6 balances as an offset or expense to total NPSE, as determined in the APCU, beginning with the
7 2017 APCU filing. For the 2017 APCU, the three-year historical average net balance was
8 \$23,870, or \$1,113 on an Oregon jurisdictional basis, representing a de minimis decrease to
9 total NPSE. The three-year historical average of actual net balances will be updated annually
10 as part of the March Forecast of the APCU.

11 The Stipulating Parties agree that Idaho Power will adopt Staff's proposed methodology
12 regarding the jurisdictional allocation of NPSE for the 2017 APCU and all future APCU filings.³¹
13 In all prior APCU filings, Idaho Power used the Commission-approved APCU methodology,
14 which allocates NPSE incremental to the previous year. Under Staff's proposed methodology,
15 Idaho Power will allocate total NPSE, and will reset total NPSE each year, rather than allocating
16 incremental NPSE from one year to the next. More specifically, Idaho Power will calculate the
17 Oregon jurisdictional share of the APCU revenue requirement by multiplying the system NPSE
18 total per-unit cost by the forecasted Oregon jurisdictional loss-adjusted normalized sales for the
19 April through March test period.

20 The Stipulating Parties agree that Idaho Power's 2018 APCU filing will include Staff's
21 proposed methodology regarding the revenue spread.³² Under Staff's proposed methodology,
22 the APCU revenue requirement will be allocated to individual customer classes on the basis of
23 normalized jurisdictional forecasted sales at the generation level for the test period. Parties

24 ³⁰ Stipulation ¶ 24.

25 ³¹ Stipulation ¶ 25. Staff's methodology is set forth in Staff/200, Kaufman/2 to 5.

26 ³² Stipulation ¶ 26.

1 agree to implement this methodology with the 2018 APCU filing to allow adequate time for
2 further investigation of the methodology.

3 The Stipulating Parties agree that Idaho Power will provide its supporting workpapers to
4 Staff and CUB as part of the 2018 APCU filing.³³ The Stipulating Parties will continue to work
5 together to determine the types of workpapers to be included with all future APCU filings, as
6 well as the timeline and process for providing workpapers. Ultimately, the parties intend to
7 memorialize an agreement in order to establish a prescribed process for submitting workpapers
8 in all future APCU filings.

9 The Stipulating Parties agree that prior to Idaho Power's 2018 APCU filing, the Company
10 will host a conference call with parties to discuss workpapers specific to the Company's sales
11 and load forecast.

12 Based on the foregoing agreements, the Stipulating Parties agree to Idaho Power's
13 requested revenue requirement increase of \$700,164.³⁴ The Stipulating Parties agree that rates
14 agreed to by the terms of this Stipulation should be made effective on June 1, 2017.³⁵

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

16 The Commission will adopt a stipulation if it is supported by competent evidence in the
17 record, appropriately resolves the issues in a case, and results in just and reasonable rates.³⁶

18

19

20 ³³ Stipulation ¶ 27.

21 ³⁴ Stipulation ¶ 28.

22 ³⁵ Stipulation ¶ 29.

23 ³⁶ See *Re PacifiCorp's 2010 Transition Adjustment Mechanism*, Docket No. UE 207, Order No. 09-
432 at 6 (Oct. 30, 2009) ("The Commission concludes that the Stipulation is an appropriate
24 resolution of all primary issues in this docket."); See *Re PacifiCorp Request for a General Rate*
25 *Revision*, Docket No. UE 210, Order No. 10-022 at 6 (Jan. 26, 2010) ("When considering a
26 stipulation, we have the statutory duty to make an independent judgment as to whether any given
settlement constitutes a reasonable resolution of the issues."); See *Re PacifiCorp Request for a*
General Rate, Docket No. 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.").

1 When evaluating the rates, the Commission examines “the reasonableness of the overall
2 rates.”³⁷ Here, the Stipulation satisfies these standards.

3 First, the Stipulation is supported by the record, which includes the Company’s testimony
4 and exhibits describing the detailed calculations supporting both the 2017 October Update and
5 2017 March Forecast.³⁸ Staff and CUB conducted a thorough investigation of the Company’s
6 testimony and exhibits, and served numerous data requests. As a result of its investigation,
7 Staff filed testimony in response to the 2017 October Update.³⁹ Staff and CUB raised concerns
8 regarding certain aspects of Idaho Power’s filing. These issues were addressed at settlement
9 meetings and workshops, and in the Company’s responsive testimony.⁴⁰ After negotiations, the
10 Stipulating Parties reached agreement on all unresolved issues as detailed above. The
11 Stipulating Parties agree that the testimony filed by Idaho Power and Staff is sufficient to support
12 a finding that the Stipulation is reasonable and should be adopted.

13 Second, the Stipulating Parties agree that the revenue requirement, results in a cost per-
14 unit rate that is consistent with the methodology approved by the Commission in Order No. 08-
15 238.⁴¹ The Stipulating Parties also agree that the Company’s proposed rate spread conforms
16 to the methodology approved by the Commission in Order No. 10-191.⁴² Because the
17 Company’s filed case, as modified by the Stipulation, reflects correct calculations that conform
18 to Commission precedent, the resulting rates are just and reasonable and fall within the “range
19 of reasonableness” for resolution of these issues.⁴³

20

21 ³⁷ *Re Application of Portland General Electric Co. for an Investigation into Least Cost Plant*
22 *Retirement*, Docket No. DR 10 *et al.*, Order No. 08-487 at 7-8 (Sept. 30, 2008).

23 ³⁸ Idaho Power/100-108; Idaho Power/200; Idaho Power/300-305.

24 ³⁹ Staff/100-102; Staff/200-203; Staff/300-302.

25 ⁴⁰ See Idaho Power/200 and Idaho Power/300.

26 ⁴¹ Stipulation ¶¶ 30-32.

⁴² Stipulation ¶ 31.

⁴³ See *Re US West*, Docket No. UM 773, Order No. 96-284 at 31 (Nov. 1, 1999).

1 **III. CONCLUSION**

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

4 Respectfully submitted,

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6 DATED: April 28, 2017.

MCDOWELL RACKNER & GIBSON PC

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8 Lisa F. Rackner
9 Adam Lowney
Of Attorneys for Idaho Power

10 IDAHO POWER COMPANY
11 Lisa Nordstrom
12 Lead Counsel
PO Box 70
Boise, ID 83707

13 PUBLIC UTILITY COMMISSION STAFF
14 Mike Weirich
15 Attorney for Staff
Oregon Department of Justice
1162 Court Street NE
16 Salem, OR 97301-4096

17 CITIZENS' UTILITY BOARD OF OREGON
18 Mike Goetz
19 Staff Attorney
Citizens' Utility Board of Oregon
610 SW Broadway, Ste. 400
Portland, OR 97205