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May 1, 2018

**VIA ELECTRONIC FILING**

Attention: Filing Center  
Public Utility Commission of Oregon  
201 High Street SE, Suite 100  
P.O. Box 1088  
Salem, Oregon 97308-1088

**Re: Docket UE 333: In the Matter of IDAHO POWER COMPANY, 2018 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.

Sincerely,

A handwritten signature in blue ink that reads "Alisha Till".

Alisha Till  
Legal Assistant

Attachment

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

3 **UE 333**

4 In the Matter of:

5 IDAHO POWER COMPANY

6 2018 ANNUAL POWER COST UPDATE  
7

**JOINT EXPLANATORY BRIEF**

8 This brief explains and supports the Stipulation filed in this proceeding on April 30,  
9 2018, among Idaho Power Company (“Idaho Power” or “Company”), the Oregon Citizens’  
10 Utility Board (“CUB”), and Staff of the Public Utility Commission of Oregon (“Staff”) (together,  
11 the “Stipulating Parties”). This Stipulation resolves all issues raised by the Stipulating Parties  
12 related to Idaho Power’s 2018 Annual Power Cost Update (“APCU”).

13 **I. BACKGROUND**

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

15 In Order No. 08-238 the Commission approved an automatic adjustment clause that  
16 allows Idaho Power to annually update its net power supply expense (“NPSE”) included in  
17 rates.<sup>1</sup> This automatic adjustment clause is referred to as the APCU and has two  
18 components—an “October Update” and a “March Forecast.” The October Update  
19 establishes the prospective base or normalized level of NPSE for an April through March test  
20 period. The March Forecast contains the Company’s forecast of expected NPSE over the  
21 same test period. The mechanism allows for the rates from the October Update and March  
22 Forecast to become effective on June 1 of each year.

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

1 Pursuant to Order No. 10-191, the Company adjusts base rates to reflect changes in  
2 revenue requirement related to the October Update, while the rates resulting from the March  
3 Forecast are listed on Schedule 55.

4 **B. The 2018 October Update.**

5 On October 31, 2017, Idaho Power filed testimony and exhibits for the 2018 October  
6 Update component of the APCU (“2018 October Update”).<sup>2</sup> Pursuant to Order No. 08-238,  
7 Idaho Power reviewed all the inputs and provided changes in the 2018 October Update for  
8 the following variables: (1) fuel prices and transportation costs, (2) wheeling expenses, (3)  
9 planned outages and forced outage rates, (4) heat rates, (5) forecast of normalized load and  
10 normalized sales, (6) contracts for wholesale power and power purchases and sales, (7)  
11 forward price curve, (8) Public Utility Regulatory Policies Act of 1978 (“PURPA”) expenses,  
12 and (9) the Oregon state allocation factor.<sup>3</sup>

13 The test period for the 2018 October Update was April 2018 through March 2019 and  
14 included updates to the above-referenced variables for all Company-owned resources and  
15 updated sales and load forecasts.<sup>4</sup> The 2018 October Update specifically accounted for  
16 changes in coal and natural gas prices, generation and expenses related to contracts entered  
17 into pursuant to PURPA, and normalized system load.<sup>5</sup>

18 As part of the fuel expense update, the Company updated its forecast of Oil, Handling,  
19 and Administrative and General (“OHAG”) expenses per the terms of the 2016 and 2017  
20 APCU settlement stipulations. Per the terms of the 2016 APCU settlement stipulation <sup>6</sup>, the  
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22 <sup>2</sup> See Idaho Power/100-109.

23 <sup>3</sup> Idaho Power/100, Blackwell/4-5.

24 <sup>4</sup> Idaho Power/100, Blackwell/2 and 5.

25 <sup>5</sup> Idaho Power/100, Blackwell/5-11.

26 <sup>6</sup> *Re Idaho Power Company’s 2016 Annual Power Cost Update*, Docket No. UE 301, Stipulation  
at 7 (May 11, 2016).

1 per unit OHAG expense included in the AURORA model was updated to reflect the amount  
2 of OHAG expense driven by Idaho Power's dispatch of each of its coal plants. The Company  
3 then separately accounted for its proportional share of the total OHAG expense incurred at  
4 each of its coal plants. Per the terms of the 2017 APCU settlement stipulation <sup>7</sup> ("2017  
5 Stipulation"), Idaho Power's proportional share of total OHAG expenses incurred at each of  
6 its coal plants was forecast using the three-year historical average of actual OHAG costs,  
7 with a growth (reduction) rate equal to the five-year historical average growth (reduction)  
8 rate. Idaho Power also accounted for revenues received from or expenses paid to NV Energy  
9 (its ownership partner in the North Valmy Plant ("Valmy")) for usage of the Company's  
10 unused capacity or the Company's usage of NV Energy's unused capacity per the terms of  
11 the 2017 Stipulation.

12 The October Update included the Company's estimate of incremental costs and  
13 benefits associated with participation in the Western Energy Imbalance Market ("EIM") to be  
14 included in the 2018 APCU. The Company proposed to set estimated EIM benefits equal to  
15 expected EIM costs. <sup>8</sup>

16 1. The filed 2018 October Update resulted in a cost per unit of \$26.54 per  
17 megawatt-hour ("MWh"), representing an increase of 1.8 percent over last year's October  
18 Update cost per unit of \$26.06 per MWh.<sup>9</sup> The Company calculated the Oregon jurisdictional  
19 share of total NPSE by multiplying the cost per unit of \$26.54 per MWh by the forecasted  
20 Oregon jurisdictional loss-adjusted normalized sales for the April through March test period,  
21 consistent with the methodology approved in the 2017 Stipulation. Idaho Power then  
22 calculated the incremental Oregon jurisdictional NPSE by comparing the 2018 October

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23 <sup>7</sup> *Re Idaho Power Company's 2017 Annual Power Cost Update*, Docket No. UE 314, Stipulation  
24 at 7 (April 28, 2017).

25 <sup>8</sup> Idaho Power/100, Blackwell/14-16.

26 <sup>9</sup> Idaho Power/100, Blackwell/17.

1 Update Oregon jurisdictional share of total NPSE to the NPSE recovery under current  
2 approved rates from the 2017 APCU October Update, resulting in an incremental revenue  
3 requirement of \$360,109.<sup>10</sup> The Company's revenue spread methodology for the 2018  
4 October Update allocated the incremental revenue requirement to individual customer  
5 classes on the basis of normalized jurisdictional forecasted sales at the generation level for  
6 the test period.<sup>11</sup>

7 On January 11, 2018, Administrative Law Judge ("ALJ") Patrick Power held a  
8 prehearing conference at which the parties to docket UE 333 agreed upon a procedural  
9 schedule that would allow the Public Utility Commission of Oregon ("Commission") to issue  
10 an order on Idaho Power's 2018 APCU prior to June 1, 2018.<sup>12</sup> On November 2, 2017, CUB  
11 filed its Notice of Intervention.

12 The Stipulating Parties held an initial workshop on January 23, 2018, to discuss the  
13 2018 October Update filing. Staff and CUB served discovery on Idaho Power and conducted  
14 a thorough investigation of the 2018 October Update. The Stipulating Parties held an initial  
15 workshop on January 23, 2018, to discuss the 2018 October Update filing. Staff and CUB  
16 served discovery on Idaho Power and conducted a thorough investigation of the 2018  
17 October Update. CUB did not file Opening Testimony.<sup>13</sup>

18 Idaho Power filed Reply Testimony on March 1, 2018, in which the Company responded  
19 to the issues raised in Staff's Opening Testimony.<sup>14</sup> The Company supported its rate spread  
20 and allocation proposals, estimates of PURPA costs, and its request to recover EIM costs.

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22 <sup>10</sup> Idaho Power/200, Blackwell/18.

23 <sup>11</sup> Idaho Power/100, Blackwell/20; Idaho Power/108.

24 <sup>12</sup> *Re Idaho Power Company's 2018 Annual Power Cost Update*, Docket No. UE 333,  
Prehearing Conference Memorandum at 1 (January 11, 2018).

25 <sup>13</sup> Letter to Filing Center from William Gehrke, dated February 8, 2018.

26 <sup>14</sup> See Idaho Power/200 and 300.

1 In addition, the Company supported its BCC costs, including its method for calculating the  
2 depreciable lives of BCC assets. CUB also filed Reply Testimony on March 1, 2018. CUB's  
3 testimony focused on a single issue, arguing that the APCU is not the appropriate mechanism  
4 by which Idaho Power should recover capital costs related to the EIM.<sup>15</sup>

5 **C. The 2018 March Forecast.**

6 On March 23, 2018, Idaho Power filed the 2018 March Forecast component of the  
7 APCU ("2018 March Forecast"). The 2018 March Forecast consisted of direct testimony  
8 describing the Company's estimate of the expected NPSE for the upcoming water year—  
9 April 2018 through March 2019.<sup>16</sup> Order No. 08-238 calls for the March Forecast to update  
10 the following variables: fuel prices, transportation costs, wheeling expenses, planned and  
11 forced outages, heat rates, forecast of normalized sales and loads updated for significant  
12 changes since the October Update, forecast hydro generation, wholesale power purchase  
13 and sale contracts, forward price curve, PURPA expenses, and the Oregon state allocation  
14 factor. For the 2018 March Forecast the following variables changed since the 2018 October  
15 Update: (1) fuel prices and transportation costs; (2) planned outages and forced outage rates;  
16 (3) heat rates, (4) forecast of hydro generation from stream flow conditions using the most  
17 recent water supply forecast from the Northwest River Forecast Center ("NRFC") and current  
18 reservoir levels, (5) known power purchases and surplus sales made in compliance with the  
19 Company's Energy Risk Management Policy, (6) forward price curve, and (7) PURPA  
20 contract expenses.<sup>17</sup>

21 The fuel prices were updated to reflect changes in forecast natural gas and coal costs.<sup>18</sup>  
22 The per-unit cost of generation for the Boardman plant decreased 12 percent between the

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23 <sup>15</sup> CUB/100, Gehrke/3.

24 <sup>16</sup> Idaho Power/300-305.

25 <sup>17</sup> Idaho Power/400, Blackwell/4.

26 <sup>18</sup> Idaho Power/400, Blackwell/4-7.

1 October Updated and March Forecast. The per-unit cost of generation increased at Bridger  
2 and Valmy.<sup>19</sup>

3 The Company updated the hydro forecast.<sup>20</sup> For this APCU year, Idaho Power reports  
4 that expected inflows and flood control targets are forecast to keep flows generally within  
5 power plant capacity through the spring, resulting in a similar generation estimate as  
6 compared to last year.<sup>21</sup> Hydro generation in the March Forecast represents a .12 million  
7 MWh decrease as compared to the October Update.<sup>22</sup>

8 The filed 2018 March Forecast estimated 331 aMW in PURPA generation, which was  
9 1 aMW lower than projected in the October Update, reflecting a decrease in PURPA expense  
10 of 3 percent compared to the October Update.<sup>23</sup>

11 The March Forecast also updated the estimated EIM costs and benefits to be included  
12 in the 2018 APCU. On an Oregon allocated basis, the revenue requirement associated with  
13 EIM costs is \$113,268, which represented an increase of \$31,748 over the October Update  
14 estimate.<sup>24</sup>

15 The Company calculated a March Forecast rate of negative \$0.59 per MWh, as  
16 compared to last year's March Forecast rate of \$ 0.24 per MWh.<sup>25</sup> As filed, the overall  
17 proposed revenue impact of the combined October and March rates was a decrease of \$0.22  
18 million, or a 0.39 percent decrease overall.<sup>26</sup> The 2018 March Forecast also included the  
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20 <sup>19</sup> Idaho Power/300, Blackwell/5-6.

21 <sup>20</sup> Idaho Power/300, Blackwell/8.

22 <sup>21</sup> Idaho Power/400, Blackwell/9.

23 <sup>22</sup> Idaho Power/300, Blackwell/8-9.

24 <sup>23</sup> Idaho Power/300, Blackwell/8.

25 <sup>24</sup> Idaho Power/400, Blackwell/14-15.

26 <sup>25</sup> Idaho Power/300, Blackwell/16.

<sup>26</sup> Idaho Power/400, Blackwell/18.

1 Company's proposed rate spread used to spread the March Forecast revenue requirement  
2 to the various customer classes.<sup>27</sup>

3 Again, Staff and CUB issued discovery and conducted a thorough investigation.  
4 Settlement conferences were held on February 20, 2018, and April 3, 2018. Ultimately the  
5 Stipulating Parties resolved all the issues in this case through these discussions.

## 6 II. DISCUSSION

### 7 A. Terms of the Stipulation.

8 The Stipulating Parties agree that Idaho Power will adopt a modified rate spread  
9 methodology. Under the proposed modified methodology, the Oregon jurisdictional share of  
10 total NPSE, instead of the Oregon jurisdictional share of incremental NPSE, will be allocated  
11 to individual customer classes on the basis of normalized jurisdictional forecasted sales at  
12 the generation level for the forecast April through March test period. Any rate increases  
13 resulting from application of this methodology as applied to a customer class will be limited  
14 to three percent above the overall average rate increase on a percentage of total revenue  
15 basis. For example, if the overall revenue impact of the APCU is an increase in total billed  
16 revenue of 0.5 percent, rate increases for each customer class will be limited to 3.5 percent.

17 The Stipulating Parties agree that no later than July 31, 2018, Idaho Power will provide  
18 to the Stipulating Parties analysis of the long-term fueling plan for Bridger based on  
19 information known at the time of its creation. As part of that analysis, Idaho Power will  
20 compare the costs of Option A with Option B.

21 The Stipulating Parties agree that in future APCU filings, Idaho Power will include  
22 information setting forth how and why BCC depreciation expense has changed from the  
23 levels set in the Company's most recent general rate case. The Stipulating Parties agree that  
24 Idaho Power will provide workpapers in future APCU filings to support the depreciable lives  
25 of Bridger Coal Company assets. The Stipulating Parties will continue to work together to

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26 <sup>27</sup> Idaho Power/300, Blackwell/15-16; Idaho Power/304.



1 determine the types of workpapers to be included with future APCU filings prior to the filing  
2 of the 2019 APCU in October 2018.

3 The Stipulating Parties agree that Idaho Power will implement adjustments to the  
4 PURPA forecast included in the March Forecast of the APCU, beginning with the 2018 APCU  
5 March Forecast. First, for any new PURPA project expected to come online during the APCU  
6 forecast test period, the forecast generation and expense will be included in the forecast  
7 beginning in the month in which the project is expected to come online. For example, if a new  
8 PURPA project is expected to come online in December of the APCU forecast test period,  
9 the forecast generation and expense for the project will be included in the PURPA forecast  
10 beginning in December. Second, the expected online date for any new PURPA project will  
11 be adjusted using the three-year average Contract Delay Rate (“CDR”) of historical PURPA  
12 projects. The CDR is based on the average of differences in scheduled operation date and  
13 actual operation date for historical PURPA projects. The three-year historical average CDR  
14 will be applied to any new PURPA project expected to come online during the forecast test  
15 period for the March Forecast of the APCU. The methodology used to calculate the CDR for  
16 the 2018 APCU is provided as Exhibit 1 to this stipulation.

17 The Stipulating Parties agree that the EIM costs recovered through the 2018 APCU will  
18 include operation and maintenance costs and capital costs. The 2018 APCU will include  
19 \$5.5 million in system EIM benefits, or approximately \$255,200 on an Oregon-allocated  
20 basis. The \$5.5 million in system EIM benefits accounts for \$4.5 million in estimated benefits  
21 as determined by the Energy + Environmental Economics, Inc. (“E3”) EIM study  
22 commissioned by Idaho Power, as well as an additional \$1 million in benefits in accordance  
23 with Staff’s estimate of flexible reserve benefits that were not included in the E3 study.<sup>28</sup> The  
24 Oregon-allocated revenue requirement associated with EIM costs to be included in the 2018  
25 APCU is \$113,268. The parties emphasize that the agreement to include these costs and

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26 <sup>28</sup> Staff/400, Gibbens/4.

1 benefits in the APCU is the result of a compromise of positions and should not be viewed as  
2 reflecting any party's agreement to this approach in other circumstances.

3 Based on the foregoing agreements, the Stipulating Parties agree to Idaho Power's  
4 requested revenue requirement decrease of \$376,324, or a 0.68 percent decrease in current  
5 billed revenue. The Stipulating Parties agree that rates agreed to by the terms of this  
6 Stipulation should be made effective on June 1, 2018, as permitted by the APCU mechanism.

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.<sup>29</sup>  
10 When evaluating the rates, the Commission examines "the reasonableness of the overall  
11 rates."<sup>30</sup> Here, the Stipulation satisfies these standards.

12 First, the Stipulation is supported by the record, which includes the Company's  
13 testimony and exhibits describing the detailed calculations supporting both the 2018 October  
14 Update and 2018 March Forecast.<sup>31</sup> Staff and CUB conducted a thorough investigation of  
15 the Company's testimony and exhibits, and served numerous data requests. As a result of  
16 its investigation, Staff filed testimony in response to the 2018 October Update.<sup>32</sup> Staff and  
17 CUB raised concerns regarding certain aspects of Idaho Power's filing. These issues were  
18 addressed at settlement meetings and workshops, and in the Company's responsive

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19 <sup>29</sup> See *Re PacifiCorp's 2010 Transition Adjustment Mechanism*, Docket No. UE 207, Order No.  
20 09-432 at 6 (Oct. 30, 2009) ("The Commission concludes that the Stipulation is an appropriate  
21 resolution of all primary issues in this docket."); See *Re PacifiCorp Request for a General Rate*  
22 *Revision*, Docket No. UE 210, Order No. 10-022 at 6 (Jan. 26, 2010) ("When considering a  
23 stipulation, we have the statutory duty to make an independent judgment as to whether any  
24 given settlement constitutes a reasonable resolution of the issues."); See *Re PacifiCorp Request*  
25 *for a General Rate*, Docket No. UE 217, Order No. 10-473 at 7 (Dec. 14, 2010) ("We have  
26 reviewed the Stipulation, and find that it will result in rates that are fair, just, and reasonable.")

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

<sup>31</sup> Idaho Power/100-109; Idaho Power/200-1; Idaho Power/300-301; Idaho Power/400-407.

<sup>32</sup> Staff/100-102; Staff/200-204; Staff/300-302; Staff/400-402.

1 testimony.<sup>33</sup> After negotiations, the Stipulating Parties reached agreement on all unresolved  
2 issues as detailed above. The Stipulating Parties agree that the testimony filed by Idaho  
3 Power and Staff is sufficient to support a finding that the Stipulation is reasonable and should  
4 be adopted.

5 Second, the Stipulating Parties agree that the revenue requirement, results in a cost  
6 per-unit rate that is consistent with the methodology approved by the Commission in Order  
7 No. 08-238.<sup>34</sup> Because the Company's filed case, as modified by the Stipulation, reflects  
8 correct calculations that conform to Commission precedent, the resulting rates are just and  
9 reasonable and fall within the "range of reasonableness" for resolution of these issues.<sup>35</sup>

### 10 III. CONCLUSION

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

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<sup>33</sup> See Idaho Power/300 and Idaho Power/400.

<sup>34</sup> Stipulation ¶¶ 30-32.

<sup>35</sup> See *Re US West*, Docket No. UM 773, Order No. 96-284 at 31 (Nov. 1, 1999).

1 DATED: May 1, 2018.

Respectfully submitted,

2 **MCDOWELL RACKNER GIBSON PC**

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