

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 12, 2013

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2013

DATE: January 8, 2013

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: Jason Eisdorfer *E*, Maury Galbraith *MG* and Marc Hellman *MH*

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1464(3)) Requests reauthorization to defer Net Power Cost Variances.

STAFF RECOMMENDATION:

I recommend Idaho Power Company's application be approved.

DISCUSSION:

Idaho Power Company (Idaho Power or Company) makes this application pursuant to ORS 757.210, ORS 757.259, OAR 860-027-0300, and Order No. 08-238, to request reauthorization to defer annual net variable power cost variances (PCV) for the 12-month period beginning January 1, 2013.

Description of Expense

By Order No. 08-238, the Commission approved an annual Power Cost Adjustment Mechanism (PCAM) for Idaho Power. Idaho Power's Schedule 56 contains the terms of the PCV deferral which captures the annual difference between actual net variable power costs and the forecasted costs that are collected from customers through the Company's Schedule 55.

The PCV is calculated pursuant to the terms in Schedule 56. Those terms include a Power Supply Expense Deadband, and require an earnings review prior to amortization.

Reason for Deferral

The PCV 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(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 PCV to FERC 501 (Fuel), FERC 547 (Fuel), FERC 447 (Sales for Resale), FERC 565 (Transmission by Others) and FERC 555 (Purchased Power).

Estimate of Amounts

In the Company's filing it states that the deferred amount 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 deferred amount is dependent on factors that cannot be precisely forecast, Idaho Power cannot provide a precise estimate. Idaho Power also requests 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 2011 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.

Information Related to Future Amortization

- 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 PCV 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.

Staff Analysis

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. For these reasons, Staff recommends Idaho Power's application be approved.

PROPOSED COMMISSION MOTION:

Idaho Power's application be approved for accounting purposes only, with ratemaking treatment to be considered in a subsequent proceeding.