

ITEM NO. CA10

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 7, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2017

DATE: February 21, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *mpm*
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THROUGH: Jason Eisdorfer and Marc Hellman *Do*

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1464(7)) 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 period January 1, 2017 through December 31, 2017.

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 reason for the deferral, estimated amount of the deferral, etc. Previous approval of this deferral was most recently granted by Order No. 16-036.

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.

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 2016 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 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. For these reasons, Staff recommends Idaho Power's application be approved.

PROPOSED COMMISSION MOTION:

Approve Idaho Power's application to defer net variable power costs for the period January 1, 2017 through December 31, 2017, with ratemaking treatment to be considered in a subsequent proceeding.