ORDER NO. 01-307

ENTERED APR 25 2001

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1007

In the Matter of the Application of IDAHO POWER COMPANY for an Accounting Order Regarding Excess Net Power Costs.	)))	ORDER

DISPOSITION: APPLICATION APPROVED

On December 19, 2000, Idaho Power Company filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.259 and OAR 860-027-0300, for an accounting order requesting authorization to defer excess net power costs incurred as a result of extraordinarily high wholesale power prices.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on April 17, 2001, the Commission adopted Staff's recommendation to approve deferral of a portion of Idaho Power's excess net power costs at issue in this application. Staff's recommendation and supporting exhibits are attached, as Appendixes A and B, and are incorporated by reference.

ORDER

IT IS ORDERED THAT Idaho Power Company's application for an accounting order regarding authorization of deferred accounting for excess net power costs, as described in Appendixes A and B, is granted. This approval is for accounting purposes only.

Made, entered and effective ________________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 17, 2001

REGULAR AGENDA __X__ **CONSENT AGENDA** __ **EFFECTIVE DATE** January 1, 2001
DATE: April 10, 2001

TO: Phil Nyegaard through Lee Sparling

FROM: Ed Busch

SUBJECT: Idaho Power Company
Docket UM 1007
Authorization of Deferred Accounting for Excess Net Power Costs

SUMMARY RECOMMENDATION:

I recommend the Commission approve deferral of a portion of Idaho Power's excess net power costs in Docket UM 1007, calculated using the mechanism described in Attachment A to this staff report. This approval is for accounting purposes only.

DISCUSSION:

On December 19, 2000, Idaho Power Company filed an Application for an Accounting Order requesting authorization to defer excess net power costs incurred as a result of extraordinarily high wholesale power prices. The application, docketed as UM 1007, proposed to accrue interest on the accumulated deferred debit at the company's authorized rate of return of 8.953 percent. Idaho Power defined excess net power costs as the difference between the actual net power supply costs for the period January 1, 2001, through December 31, 2001, and the net power supply costs established in Docket UE 92, the company's most recent general rate proceeding in Oregon. The application was filed pursuant to ORS 757.259 and OAR 860-027-0300.

Staff reviewed Idaho Power's UM 1007 filing and additional information provided in response to staff data requests. The company's power supply costs have been far greater than forecast due to the combination of high purchased power costs and below-average hydroelectric generating conditions. On March 7, 2001, staff provided a proposal for calculating Idaho Power's deferred excess power costs. This proposal was discussed at a settlement conference held on March 21, 2001. At that meeting, staff and the company agreed on a mechanism to calculate deferred excess power costs.
The agreed-upon approach, which is virtually the same as the Commission-approved approach for Portland General Electric Company's deferral of changes in net variable power costs in

Dockets UM 1008/1009, is described in Attachment A. It contains the following key features:

- Idaho Power's actual net variable power costs (NVPC) for the calendar year 2001 deferral period will be compared to a base NVPC of $58.72 million, calculated as the NVPC from UE 92—the company's most recent general rate case—increased by the load growth since UE 92.
- The amount of excess NVPC up to $31.38 million on a system basis, equivalent to a 250 basis point return on equity dead band, will not be deferred. The amount between $31.38 million and $50.21 million (between 250 and 400 basis points ROE), will be shared 50-50 between customers and shareholders. The amount greater than $50.21 million will be charged (deferred) 80 percent to customers.
- The calculated deferral will be multiplied by the Oregon allocation factor, approximately 4.8 percent, to determine the amount of deferral subject to amortization to Oregon customers.
- Interest will accrue on the deferred amount at the company's authorized rate of return.

Staff believes this approach for calculating deferrals fairly balances power cost risks between customers and shareholders between rate cases and recommends the Commission approve this structure for UM 1007. Compared to the $58.72 million base NVPC, Idaho Power estimates its 2001 net power costs will be at least $213 million, and probably much higher.

Idaho Power provided a copy of its Application along with a Notice of Application to each of the parties in Docket UE 92. Staff also provided its proposal for deferral of Idaho Power's excess power costs to each of those parties. None of the parties submitted comments on the application or staff's proposal, or participated in the settlement conference.

In addition to reaching an understanding regarding the calculation of deferrals under UM 1007, staff and Idaho Power agreed to continue discussions regarding a power cost adjustment (PCA) mechanism for 2002 and, if possible, for the second half of 2001. Staff also agreed to support the company's application for an immediate 3% rate increase to begin amortizing the power cost deferrals, upon a demonstration of a high likelihood that the deferrals will significantly exceed this level. The company has indicated it will make that filing in the next few weeks.

STAFF RECOMMENDATION:

I recommend the Commission approve deferral of a portion of Idaho Power's excess net power costs in Docket UM 1007, calculated using the mechanism described in Attachment A to this staff report. This approval is for accounting purposes only.

Attachment

UM 1007 – Idaho Power Company
Calculation of Deferred Excess Net Power Costs
January 1, 2001 – December 31, 2001

1. The base net variable power cost (Base NVPC) for 2001 is $58,720,000 on a system basis. (This amount is calculated by escalating the company's net power supply costs of $50,458,000 in Docket UE 92 by 16.37 percent, the increase in system loads from 1993 to 2001.) The annual Base NVPC will be spread (shaped) based on the company's most recent normalized monthly net variable power cost forecast for 2001.

2. The monthly differences between Base NVPC and Actual NVPC will be accumulated for calendar year 2001, and the amount deferred will be calculated as:

Variance from Base Net Variable Power Costs of $58.72 million for the Deferral Period	Deferral Amount*
Deadband of $31.38 million above and below the Base (equivalent to approximately 250 basis points return on equity)	None.
Between $31.38 million and $50.21 million above and below the Base (equivalent to between approximately 250 and 400 basis points return on equity)	50 percent of the variance between $31.38 million and $50.21 million exceeding (less than) the Base shall be charged (credited) to customers.
Greater than $50.21 million above or below the Base (equivalent to approximately 400 basis points return on equity)	80 percent of the variance above $50.21 million exceeding (less than) the Base shall be charged (credited) to customers

* The calculated deferral will be multiplied by the Oregon allocation factor to determine the amount booked to the Oregon deferred account.

3. Actual NVPC will be calculated as Fuel (FERC Account 501), plus Purchased Power (FERC Account 555, less Cogen & SPP), minus Sales for Resale (FERC Account 447).

4. Actual NVPC will be adjusted:
   a. To include as a cost the lost revenues resulting from the operation of (1) the Energy Buy-back Program (Rate Schedule 22), and (2) the Irrigation Buy-back Program (Rate Schedule 23), except that: If the final net variable power cost deferral falls between $9 million (the border between the bottom 80-20 sharing band and the 50-50 sharing band) and $109 million (the border between the upper 80-20 sharing band and the 50-50 sharing band), the lost revenues described above shall be removed from the final net variable power costs used to determine the deferral. If removing lost revenues causes net variable power costs to drop below $9 million, then only the amount of lost revenues needed to reach $9 million shall be removed.
   b. To exclude the costs and benefits of FASB 133 mark-to-market activity;
   c. To exclude the costs and benefits of merchant trading activity.

5. The company may defer amounts allocated to Oregon on a monthly basis. The Oregon allocation factor is to be calculated on normalized annual loads.

6. Because the deferral mechanism is applied to annual NVPC, monthly entries will be subject to a year-end true up.

7. Beginning at the end of the deferral period, interest will accrue monthly on the unamortized portion of the deferred account at Idaho Power's authorized rate of return in Oregon (equivalent to 8.953 percent annual ROR). In addition, at the end of the deferral period, an amount of interest will be added to the account that equals the product of multiplying one-half the deferred account balance at the end of the deferral period by Idaho Power's authorized rate of return of 8.953 percent.

8. Amounts in the deferred account will be subject to a prudence review and earnings test as required by ORS 757.259 prior to being amortized in customer rates. Staff will support amortization of the deferred amount irrespective of the results of the earnings review.