

ENTERED MAY 10 2001

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

UE 123

In the Matter of the Petition of IDAHO )  
POWER COMPANY for Amortization in Rates ) ORDER  
of Certain Deferred Excess Net Power Supply )  
Expenses. )

DISPOSITION: APPLICATION ALLOWED TO GO INTO EFFECT,  
WITH CONDITIONS; SUBJECT TO A HEARING/POSSIBLE REFUND

On April 19, 2001, Idaho Power Company filed an Application with the Public Utility Commission of Oregon (Commission) to implement tariff schedules that would increase its Oregon revenues by \$774,950. A description of the application terms, as well as the procedural history of this filing, is contained in the Staff Report attached as Appendix A and incorporated by reference.

At the public meeting on May 1, 2001, the Commission adopted Staff's recommendation to allow Idaho Power's tariff sheets filed in Advice No. 01-5 to become effective with service on and after May 2, 2001, with the condition that a hearing on the application will be held, and that any increased revenues stemming from the proposed tariff sheets are therefore subject to refund.

**ORDER**

IT IS ORDERED that:

1. IDAHO POWER COMPANY's request for waiver of the 30-day notice requirement (LSN) is approved.
2. IDAHO POWER COMPANY's tariff sheets (Advice No. 01-5) are allowed to go into effect with service on and after May 2, 2001, as further described in Appendix A.

3. A hearing will be scheduled through the Administrative Hearings Division of the Public Utility Commission to allow for further review of this application, pursuant to ORS 757.210(1). Therefore, any rate increase resulting from these proposed tariff sheets in Advice No. 01-5 is subject to refund, pursuant to ORS 757.215(4).

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: May 1, 2001**

**REGULAR AGENDA** X **CONSENT AGENDA**    **EFFECTIVE DATE** May 2, 2001

**DATE:** April 24, 2001

**TO:** Phil Nyegaard through Lee Sparling

**FROM:** Ed Busch

**SUBJECT:** Idaho Power Company, Docket UE 123, Advice No. 01-5  
Request for Amortization in Rates of Certain Deferred Excess Net Power  
Supply Costs

**SUMMARY RECOMMENDATION:**

I recommend that the Commission approve Idaho Power's application to Waive Statutory Notice and allow the proposed tariff sheets in Advice No. 01-5 to become effective with service on and after May 2, 2001. I further recommend that the Commission order that a hearing on Idaho Power Company's application be held, and that any increased revenues stemming from the proposed tariff sheets are therefore subject to refund.

**DISCUSSION:**

On April 18, 2001, Idaho Power Company filed an Application to implement tariff schedules that would increase its Oregon revenues by \$774,950. (Advice No. 01-5). This filing is docketed as UE 123. The purpose of the revised tariffs is to allow Idaho Power Company to begin amortizing a portion of its excess net power supply costs deferred under the mechanism the Commission approved at the April 17, 2001, public meeting (Docket UM 1007—See Attachment A). That deferred accounting approval is for the twelve months beginning January 1, 2001. Under the provisions of the deferred accounting statute, ORS 757.259(6), annual rate recovery of deferred amounts is limited to \$774,950, or 3% of the company's 2000 gross revenues in Oregon of \$25.8 million.

Idaho Power Company requests authority for immediate amortization in rates because of the magnitude of the deferred excess power supply costs, and in order to provide customers with a price signal that electricity costs have risen and thereby encourage conservation. Idaho Power Company also asserts that beginning the amortization now would also achieve a better matching of the costs incurred with the benefits customers receive.

The proposed tariffs would recover \$774,950 on an equal cents/kWh basis for forecast kWh sales for the twelve months ending December 2001 from all standard tariff customers. Attachment B shows the rate change by schedule. (There is a minor difference in the total change due to rounding.) For a residential customer using 1,237 kWh per month, the average bill would be \$60.47, an increase of \$1.46. The company has filed a request to waive statutory notice to allow the proposed tariff schedules to become effective on May 2, 2001.

Idaho Power has provided information on its actual net power costs for January and February 2001, as well as estimates for the remainder of the year. Generally, the final deferrable amount is calculated based on power costs for the entire twelve-month period. Due to the sharing mechanism adopted by the Commission in UM 1007, prior months' deferrals are subject to change. Nonetheless, for the first two months of 2001, the amount of excess power cost deferral calculated under the UM 1007 mechanism is \$3.9 million, significantly more than the proposed increase in this filing. Accordingly, staff believes that the amount of power cost deferrals (both to-date and projected for the entire year) justifies immediate amortization of 3% of the deferred amounts authorized by the Commission in UM 1007.

In its application, Idaho Power proposes that the rate increase be subject to refund. Although Staff believes it is implausible that either a prudence review or the company's power costs for the remainder of 2001 will result in deferrals less than \$774,950 for the entire year, we agree with Idaho Power's proposal and recommend that the Commission immediately approve the increase, but also ensure that it will be subject to refund. To ensure that any rate increase is subject to refund, Staff recommends that the Commission conduct a hearing on the proposed increase on its own initiative, as authorized under ORS 757.210 and .215. Under ORS 757.215(4), any rate increase obtained by the revised tariff sheets in these circumstances (when there is no suspension and when the Commission decides to conduct a hearing), is subject to refund.<sup>1</sup> Specifically, ORS 757.215(4) provides, in part:

“[i]f the commission . . . determines to conduct a hearing on a rate or schedule of rates filed pursuant to ORS 757.210, but does not order a suspension thereof, any increase revenue collected. . . shall be received subject to being refunded.”

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<sup>1</sup> Staff received advice from counsel that the Commission may decide, on its own initiative, to conduct a hearing but still allow the proposed rate increase into effect without ordering a suspension. Counsel advised Staff that if the Commission decided to conduct a hearing but did not order a suspension, the subject to refund provision of ORS 757.215(4) would be triggered.

Staff further recommends that the Commission order that the hearing occur following completion of the deferral period (currently expected to be December 31, 2001).

ORS 757.259(4) requires that the Commission review Idaho Power Company's earnings prior to allowing the company to amortize deferred amounts into rates. OAR 860-027-0300(9) states that the earnings review must cover a portion of the deferral period, or a period that is reasonably representative. In its Application, Idaho Power provided its unadjusted results of operations for the twelve months ended December 31, 2000. These results show a 3.5 percent overall rate of return in the company's Oregon jurisdiction, which reflects a negative return on equity. Idaho Power's net power costs are expected to be even higher (and earnings lower) in 2001 than in 2000. Staff agrees with the company that the financial results for 2000 are reasonably representative of the deferral period for the purpose of determining the company's 2001 earnings. The level of Idaho Power's earnings is below the bottom of the range for a reasonable rate of return and is not sufficient to absorb the deferred amounts.

Finally, ORS 757.259(4) also requires that deferred amounts will be allowed in rates only to the extent authorized in a proceeding to change rates. Docket UE 123 is such a proceeding.

**STAFF RECOMMENDATION:**

I recommend that the Commission approve Idaho Power's application to Waive Statutory Notice and allow the proposed tariff sheets in Advice No. 01-5 to become effective with service on and after May 2, 2001. I further recommend that the Commission order that a hearing on Idaho Power Company's application will be held under ORS 757.210(1), and that therefore, any rate increase resulting from the proposed tariff sheets in Advice No. 01-5 is subject to refund under ORS 757.215(4).

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Attachments

**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 <u>\$58.72 million for the Deferral Period</u>	<u>Deferral Amount*</u>
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.

**Idaho Power Company - Advice 01-5  
Rate Change by Schedule (Oregon)**

<u>Class</u>	<u>Description</u>	<u>Energy</u>	<u>Revenues</u>	<u>Rate Change Cents/Kwh</u>	<u>Revenues @ New Rate</u>	<u>Percent Change</u>
O01-	1 - Residential Serv.	191,572,867	\$9,135,926	0.1178	\$9,361,599	2.47%
O07-	7 - Small General Serv.	16,538,754	944,238	0.1178	\$963,721	2.06%
O09S	9 - Large General Serv.	128,378,936	5,698,992	0.1178	\$5,850,223	2.65%
O09P	9 - Large General Serv.	8,342,309	286,418	0.1178	\$296,245	3.43%
O15-	15 - Dusk/Dawn Lighting	432,672	120,125	na	\$120,649	0.44%
O19P	19 - Uniform Rate Cont.	165,895,328	4,769,962	0.1178	\$4,965,387	4.10%
O19S	19 - Uniform Rate Cont.	92,170,986	2,562,138	0.1178	\$2,670,716	4.24%
O24S	24 - Irrigation & Pump.	53,393,170	2,180,436	0.1178	\$2,243,333	2.88%
O40-	40 - Unmetered Gen. Serv.	100,602	5,171	0.1178	\$5,288	2.26%
O41-	41 - Municipal St. Light.	902,890	126,433	na	\$127,429	0.79%
O42-	42 - Traffic Control Light.	<u>46,668</u>	<u>1,813</u>	na	<u>\$1,866</u>	<u>2.95%</u>
	Total Revenues	657,775,182	25,831,653		26,606,456	3.00%