ORDER NO. 01-994

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 131

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

DISPOSITION: APPLICATION APPROVED

On October 5, 2001, Idaho Power Company filed a petition with the Public Utility Commission of Oregon (Commission) requesting the Commission approve an application to increase its amortization of deferred excess net power costs from three percent to six percent, and allow the tariff sheets included in Advice No. 01-9 to go into effect on November 28, 2001. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

At its public meeting on November 20, 2001, the Commission adopted Staff's recommendation.

ORDER

IT IS ORDERED that Idaho Power's application to increase its amortization of the deferred excess net power costs to six percent, and allow the tariff sheets included in Advice No. 01-9 to become effective on November 28, 2001, is approved, subject to refund.

Made, entered, and effective ______________________________.

BY THE COMMISSION:

____

RICK WILLIS
Executive Director

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.

Item No. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 20, 2001

REGULAR ____	**X CONSENT** ____	**EFFECTIVE DATE**	**November 28, 2001**

DATE: December 14, 2001

TO: Phil Nyegaard through Lee Sparling and Ed Busch

FROM: Maury Galbraith and Ed Krantz

SUBJECT: IDAHO POWER COMPANY: (Docket No. UE 131/Advice No. 01-9) Requests to increase the amortization of deferred excess net power costs from three to six percent.

STAFF RECOMMENDATION:

We recommend that the Commission approve Idaho Power's application to increase its amortization of the deferred excess net power costs from three percent to six percent, and allow the tariff sheets included in Advice No. 01-9 to go into effect on November 28, 2001, subject to refund.

DISCUSSION:

On October 4, 2001, Idaho Power Company filed Advice No. 01-9, docketed as UE 131. In this filing, the company requests approval to increase amortization of its excess net power costs from three percent of the previous year's gross retail revenues (the level authorized in Order No. 01-491 (Docket UE 123)), to six percent.

Under former ORS 757.259, Idaho Power's recovery of deferred amounts was limited to $774,950, which is three percent of the company's Oregon 2000 gross revenues ($25.8 million). In 2001, the Oregon Legislature amended ORS 757.259 giving the Commission authority to allow a maximum amortization level of six percent for electric utilities. In this filing, the company requests authority to amortize an additional three percent of deferred costs, for the maximum total allowed under ORS 757.259 of six percent ($1.55 million).

History

On December 19, 2000, Idaho Power Company filed an application docketed as UM 1007 requesting an accounting order authorizing the company to defer excess net power costs incurred as a result of extraordinarily high wholesale power prices. No party opposed the application.

Staff reviewed Idaho Power's UM 1007 filing as well as additional information provided in response to Staff data requests. The company's power supply costs were far greater than forecasted due to the combination of high purchased power costs and below-average hydroelectric generating conditions. On March 7, 2001, Staff proposed a mechanism for calculating Idaho Power's deferred excess power costs. The parties discussed Staff's proposal at a settlement conference held on March 21, 2001. At that meeting, Staff and the company agreed on a mechanism to calculate the company's deferred excess power costs. The agreed-upon approach is virtually the same as the Commission-approved approach for both Portland General Electric Company and PacifiCorp in their dockets concerning deferral of changes in net variable power costs. See OPUC Order Numbers 01-231 (PGE) and 01-420 (PacifiCorp).

Staff recommended and the Commission approved deferral of a portion of Idaho Power's excess net power costs in Docket UM 1007 using the aforementioned agreed-upon mechanism (Order No. 01-307). Key elements of the mechanism are as follow:

- 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 of 16.37 percent.
- 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 be accrued on the deferred balance at the company's authorized rate of return (8.953 percent).

Idaho Power filed an application on April 18, 2001, docketed UE 123, to implement tariff schedules increasing its Oregon revenues by $774,950 (3 Percent). The Commission issued Order No. 01-408 effective May 2, 2001, approving the application and requiring that a hearing be scheduled and ordering that the rates are subject to refund. Subsequently, at the

Commission's June 15, 2001 public meeting, the Commission granted the company's request to delay implementation of the increase to June 18, 2001.

Balance of Deferred Net Variable Power Costs

As of August 31, 2001, the deferred account balance is approximately $11.7 million. At a 6 percent amortization rate, it would take more than 10 years to collect this balance from customers.

The company and Staff reserve the right to propose alternative recovery mechanisms for power costs in 2002 and beyond.

Earnings Review and Three Percent Test

Unlike PacifiCorp's recent application to increase its amortization to six percent, in response to which Staff recommended to suspend the filing pending completion of the prudence review, Staff supports Idaho Power's request to increase the amortization because no parties oppose the increase, and no parties suggest that any of the costs at issue were imprudently incurred. (Nonetheless, a prudence review will be conducted as required in early 2002.) However, Staff's recommendation that the Commission approve the request to increase the amortization is predicated on the assumption that the Commission will order that any increase in rates is subject to refund. If this is not to be the case, Staff does not recommend approval of the company's application.

Pertinent provisions of the deferral statute, ORS 757.259, are as follows:

> (4) Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts described in this section shall be allowed in rates only to the extent authorized by the commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of the application to amortize the deferral. The commission may require that amortization of deferred amounts be subject to refund. The commission's final determination on the amount of deferrals allowable in rates of the utility is subject to a finding by the commission that the amount was prudently incurred by the utility.
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> (5) Except as provided in subsections (6) and (7) of this section, the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year.
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> (7) The commission may authorize amortizations for an electric utility under this section with an overall average rate impact not to exceed six percent of the electric

> utility's gross revenues for the preceding calendar year. If the commission allows an overall average rate impact greater than that specified in subsection (5) of this section, the commission shall estimate the electric utility's cost of capital for the deferral period and may also consider estimated changes in the electric utility's costs and revenues during the deferral period for the purpose of reviewing the earnings of the electric utility under the provisions of subsection (4) of this proceeding.

For a cost deferral, the Commission must conduct a review of the company's earnings in the deferral period, to determine whether the utility could absorb some or all of the deferred amounts (OAR 860-027-0300(9)). In support of the application, Idaho Power provided a statement of earnings for the year 2000 adjusted to remove estimated excess net power costs as a reasonable representation of what earnings may be in the calendar year 2001, the year of the Commission-authorized deferral. The estimated return on equity of 7.27 percent is well below what the Commission allowed both PGE (10.5 percent) in UE 115, and PacifiCorp (10.75 percent) in UE 116. Staff agrees with the company that the adjusted financial results for the year 2000 are reasonably representative for determining the company's earnings, and shows that the company could not absorb any portion of the UM 1007 deferrals and still earn a reasonable rate of return.

Idaho Power also states that increasing the amortization now would achieve a better matching of costs incurred by the company with customers receiving the benefits of those costs, send more appropriate price signals and mitigate the amount of carrying charges on the deferred balances. Staff agrees, and supports the company's request to increase its amortization to six percent.

If the Commission decided not to approve the proposed increase in amortization from three percent to six percent, Idaho Power would continue to earn interest on the unamortized account balance until fully recovered from customers. However, Staff does not recommend denying the application, because leaving the amortization rate at three percent would more than double the already-lengthy amortization period at the six percent level.

PROPOSED COMMISSION MOTION:

Idaho Power's application to increase its amortization of the deferred excess net power costs from three percent to six percent, and allow the tariff sheets included in Advice No. 01-9 to go into effect on November 28, 2001 be approved subject to refund.