ORDER NO. 07-555

ENTERED 12/13/07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1261

In the Matter of	)	
	)	
IDAHO POWER COMPANY	)	ORDER
	)	
Authorization to Defer for Future Rate	)	
Recovery Certain Excess Net Power	)	
Supply Expenses.	)	

DISPOSITION: STIPULATION ADOPTED

On April 28, 2006, Idaho Power Company (Idaho Power) filed an application for authorization to defer certain excess net power supply expenses incurred during May 1, 2006 through April 30, 2007. Idaho Power filed the application pursuant to ORS 757.259(2), which authorizes the Public Utility Commission of Oregon (Commission) to allow a utility to defer certain expenses for later incorporation in rates.

Following extensive negotiations, Idaho Power, the Citizens' Utility Board of Oregon (CUB) and the Commission staff (Staff) submitted a stipulation intended to resolve all issues arising from Idaho Power's request for deferral. The three parties, which were the only parties to this proceeding, also filed joint testimony sponsored by Michael J. Youngblood, representing Idaho Power, Lowrey Brown, representing CUB, and Carla Owings, representing Staff.

For the reasons set forth below, we find that the Stipulation is appropriate for resolving issues arising in this proceeding and approve it.

FINDINGS OF FACT

We admit the Stipulation and supporting testimony into the record pursuant to OAR 860-014-0085. Based on that information and Idaho Power's application, we make the following findings:

1. Idaho Power is a public utility and provides retail electricity services in Idaho and Oregon.

2. Idaho Power is a summer-peaking utility that relies heavily on its hydro electric generating facilities to meet the needs of its customers. Under normal conditions, almost half of Idaho Power's energy is produced by its hydro electric generating plants.

3. For its Oregon customers, Idaho Power charges rates approved by this Commission in Order No. 05-871. In that proceeding, the Commission determined that Idaho Power's revenues from the sale of surplus power under normal water conditions would exceed its power supply expense. Accordingly, it established a negative $1.8 million net power supply expense for Idaho Power on a system-wide basis, or approximately negative $89,000 on an Oregon-only basis.

4. During the deferral period (May 1, 2006 through April 30, 2007), Idaho Power's actual net power supply costs, on a system-wide basis, were $161.5 million, or $163.3 million above the amount forecast in Order No. 05-871 on a system-wide basis, or approximately $8 million on an Oregon-only basis.

5. Four main factors contributed to Idaho Power's significant excess net power supply expenses during the deferral period:

- Idaho Power experienced substantial system load growth since the 2003 test period used to set rates in Order No. 05-871.

- Early predictions of drought caused Idaho Power to reasonably enter into Power Purchase Agreements for the spring and summer months of 2006. When spring water levels were actually better than forecast, Idaho Power sold excess electricity during the spring months at prices lower than those set forth in the Power Purchase Agreements.

- Favorable stream flow conditions did not continue. Water levels from October 2006 through March 2007 were significantly less than expected due to drier conditions. Due to a reduction in hydro generation capabilities, Idaho Power was required to rely more on higher cost thermal generation and wholesale market purchases.

- Temperatures in July 2006 were considerably higher than normal throughout the region, causing an increase in electric demand and a corresponding increase in electric market prices during the summer.

6. Absent the ability to recover these expenses through a deferral, these additional costs would impose a significant financial impact on Idaho Power.

7. Based on Idaho Power's most recent general rate proceeding, a $600,000 impact on its Oregon only-operations represents an approximate 100 basis point impact on its authorized return on equity.[1]

8. Idaho Power's earnings during the deferral period did not exceed levels authorized by this Commission.

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[1] We derive this number from Order No. 05-871, Appendix B, page 1, of which we take official notice. A party may object to the facts noticed within 15 days of this order. *See* OAR 860-014-0050(2).

STIPULATION

As noted above, Idaho Power, CUB, and Staff entered into a stipulation intended to resolve all issues arising from the company's request to defer excess power costs. The Stipulation is attached as Appendix A and incorporated by reference.

The stipulating parties agree that Idaho Power should be able to defer excess power supply expenses incurred during the deferral period in the amount of $2.0 million on an Oregon-allocated basis. This represents $41.7 million on a system-wide basis. The parties explain they each arrived at this amount employing its own methodology, but that all methods were consistent in three respects:

- Actual net variable power expenses should be compared to base net variable power expenses to produce excess net power supply expenses.
- Excess net power cost expenses incurred as a consequence of load growth should not be included in amounts to be deferred.
- Idaho Power's Oregon allocation factor of 4.94 percent used in Order No. 05-871 is appropriate to apply to the system-wide excess net power supply expenses to produce the Oregon share.

The parties also agreed to the carrying charge that should be applied to the unamortized deferral balance. Beginning at the end of the deferral period, the parties recommend that interest would accrue on the deferred amount at Idaho Power's authorized rate of return. Following a Commission order authorizing amortization, interest would accrue on unamortized deferral balances at the rate (or rate determined by the methodology) established in docket UM 1147, a pending investigation relating to deferred accounting.

The parties believe that the Stipulation represents a reasonable resolution of the issues in the docket, and that the proposal to allow Idaho Power the ability to defer a portion of its excess net power supply expenses incurred during the deferral period would be a fair, just, and reasonable result. Accordingly, the parties ask the Commission to adopt the Stipulation, in its entirety, without change or condition.

DISCUSSION

Our review of a deferral application begins with whether the application is authorized under ORS 757.259(2). *See* Order No. 04-108 at 8. If the statute allows the deferral, we then exercise our discretion to determine whether to grant the application, considering the type of event that caused the request for deferral and the magnitude of that event on the utility. *Id.* We address each inquiry separately.

Eligibility under ORS 757.259(2)

Although Idaho Power indicated that it made its filing pursuant to ORS 757.259(2), the Stipulation and supporting testimony fail to identify the exact statutory provision authorizing the proposed deferral. We find that Idaho Power's request to defer excess power costs is authorized under ORS 757.259(2)(e), which allows the Commission to approve a deferral, for later inclusion in rates, of identifiable utility expenses or revenues necessary to minimize the frequency of rate changes or to match benefits received by ratepayers with costs borne by those same ratepayers.

Commission Discretion

To determine whether a deferral request warrants an exercise of Commission discretion, we examine two interrelated factors—the type of the event leading to the request for deferral, and the magnitude of the event's effect. *See* Order No. 05-1070 at 5. These considerations interact with each other such that neither, by itself, is dispositive.

As to the type of event, the Commission will look to whether the event was modeled in rates, and, if so, whether extenuating circumstances were involved that were not foreseeable during the rate case, or whether the event fell within a foreseen range of risk when rates were last set. If the event was not modeled, we will consider whether it was foreseeable as happening in the normal course of events, or not likely to have been capable of forecast. *Id.*

As to magnitude, if the event was modeled or foreseen, without extenuating circumstances, the magnitude of harm must be substantial to warrant an exercise of discretion in opening a deferred account. If the event was neither modeled nor foreseen, or if extenuating circumstances were not foreseen, then the magnitude of harm that would justify deferral likely would be lower. *Id.*

Unlike prior deferrals we have recently examined, Idaho Power seeks a deferral for not one, but multiple events. The parties agree that Idaho Power has incurred excess power costs associated with four identified events: (1) system load growth; (2) erroneous water forecasts for the spring and summer of 2006; (3) drought from October 2006 through March 2007; and (4) higher than normal temperatures in July 2006. The parties further agree, however, that excess net power costs incurred as a consequence of load growth should not be deferred. Accordingly, we focus on the remaining three events.

We find that the three events—all related to weather—are properly classified as stochastic risks. In other words, they represent risks that can be predicted to occur as part of the normal course of events. Moreover, two of the events related to water were modeled in rates. The parties presented no evidence that these risks were not foreseeable or incapable of forecast. Accordingly, Idaho Power must demonstrate that the magnitude of harm resulting from these events must be substantial to warrant an exercise of Commission discretion to authorize the deferral account.

We conclude that Idaho Power has met that burden. As noted above, Idaho Power's actual net power supply costs during the deferral period, on an Oregon-only basis, were approximately $8 million higher than the amount authorized to be collected in rates. These excess costs represent more than a 1,300 basis-point impact on Idaho Power's authorized return on equity. Even if we were to conservatively assume that half of the excess costs were due to load growth, the remaining amount is significant, and far exceeds the 250 basis-point impact we have traditionally required a utility to absorb before a deferral is authorized. *See, e.g., In re PacifiCorp*, UM 995, Order No. 02-469; *In re Portland General Electric Company,* UM 1008/UM 1009, Order No. 01-231; and *In re Idaho Power Company,* UM 1007, Order No. 01-307.

CONCLUSION

The Commission concludes that Idaho Power's request for deferral is authorized under ORS 757.259(2)(e) and warrants an exercise of our discretion. We further conclude that the parties' Stipulation proposing to allow Idaho Power the ability to defer a portion of its excess net power supply expenses incurred during the deferral period is fair, just, and reasonable. Absent the ability to recover a portion of these excess costs through a deferral, these additional costs would impose a significant financial impact on Idaho Power. Accordingly, the Stipulation is adopted in its entirety.

ORDER

IT IS ORDERED that the Stipulation filed on October 25, 2007, and attached as Appendix A, is adopted.

Made, entered, and effective DEC 13 2007.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1261

In the Matter of IDAHO POWER COMPANY Application for Authorization to Defer for Future Rate Recovery Certain Excess Net Power Supply Expenses.	**STIPULATION**

INTRODUCTION

The parties to this Stipulation are Idaho Power Company ("Idaho Power" or the "Company"), Staff of the Public Utility Commission ("Staff") and the Citizens' Utility Board of Oregon ("CUB"), (collectively, the "Parties"). The Parties are the only parties to the above-captioned docket.

By entering into this Stipulation the Parties intend to resolve all issues arising from and relating to Idaho Power's Application for Authorization for Future Rate Recovery of Certain Excess Net Power Expenses incurred for the twelve month period commencing May 1, 2006 and ending April 30, 2007 (hereinafter the "Application").

BACKGROUND

Idaho Power filed its Application on April 28, 2006, supported by the testimony of witness Michael J. Youngblood.

CUB filed its Notice of Intervention on May 19, 2006.

On May 25, 2006, Administrative Law Judge Christina Hayes presided over a prehearing conference at which the Parties agreed to a procedural schedule.

The Parties met for settlement discussions on August 17, 2006, and subsequently on September 20, 2006, November 27, 2006, March 27, 2007 and April 25, 2007. As a result of these settlement negotiations, the Parties enter into this Stipulation.

STIPULATION

A. The Parties agree on the following facts, which serve as the basis for this Stipulation:

1. In UE 167 the Commission set Idaho Power's net variable power supply expenses included in rates at negative $1.8 million on a system-wide basis;

2. For a variety of reasons, Idaho Power's actual net variable power supply expenses incurred during the deferral period significantly exceeded the amount set in UE 167. Specifically, Idaho Power's actual net variable power supply expenses during the deferral period were $161.5 million, thus exceeding the amount recovered for that same time period by $163.3 million on a system-wide basis;

3. In addition to substantial system load growth since the 2003 test period used to set rates, the reasons Idaho Power incurred such significant excess net variable power supply expenses during the deferral period include the following:

    a. Early predictions of continuing drought caused the Company to reasonably enter into Power Purchase Agreements for the spring and summer months of 2006, which, when spring runoff conditions turned out much better than anticipated, the Company needed to unwind at a lower price, having the effect of raising net power supply costs;

    b. The early good streamflow conditions did not continue, however, and for the period October 2006 through March 2007, streamflows were significantly less than expected due to much drier conditions in the region, which drove hydro generation down and net power supply costs up; and

    c. Temperatures in July 2006 were considerably higher than normal throughout the region, causing an increase in electric demand and a corresponding increase in electric market prices. Idaho Power is a summer peaking utility with its summer peaks being driving by air-conditioning and irrigation loads. Extreme high temperatures directly impact our summer peaks. The result was that during a time when we were actively purchasing power from the market to meet the higher than expected loads, we were paying higher than anticipated prices, causing an overall increase to net power supply expenses.

4. Absent a deferral, these excess power costs would impose a significant financial impact on the Company;

5. Idaho Power's earnings during the deferral period did not exceed authorized levels; and

6. Any deferral amount the Commission authorizes in this case would be amortized over a multi-year period.

B. The Parties agree that Idaho Power should be allowed to defer excess power supply expenses incurred from May 1, 2006 to April 30, 2007, in the amount of $2.0 million, on an Oregon-allocated basis. Each party arrived at this amount employing its own methodology; however, all methods were consistent with the following:

1. The Parties agree that excess power supply expenses incurred as a consequence of load growth should not be included in the amount to be deferred;

2. The Parties agree that Idaho Power's Oregon allocation factor of 4.94% from UE 167 is appropriate to apply to the system-wide variance to determine the jurisdictionally-allocated amount to be deferred; and

3. The Parties agree that a deferral amount of $2.0 million represents a fair and reasonable compromise (representing $41.7 million on a total company basis) and satisfies the Parties' respective concerns.

C. Beginning from the end of the deferral period, interest would accrue monthly on the unamortized portion of the deferred account at the Company's authorized rate of return. Upon a Commission order authorizing amortization, the interest rate that would be applied would be the rate (or the rate determined by the methodology) adopted by the Commission in the third phase of UM 1147.

D. The Parties agree that the amounts in the deferred account would be subject to a prudence review and earnings test at the time of application to amortize the deferred account, as required by ORS 757.259.

E. The Stipulation is offered into the record of this docket pursuant to OAR 860-014-0085. The Parties agree to support the Stipulation throughout this proceeding and any appeal, to provide witnesses to sponsor the Stipulation at any hearing held in this docket, and recommend that the Commission issue an order adopting the settlement contained herein.

F. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects any material portion of the Stipulation, or conditions its approval upon the imposition of additional material conditions, any party disadvantaged by

such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration of the Commission's order.

G. By entering into this Stipulation, no party shall be deemed to have approved, admitted to, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of the Stipulation. No party shall be deemed to have agreed that any part of the Stipulation is appropriate for resolving issues arising in any other proceeding.

H. The Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

I. Each Party enters into the Stipulation on the date below.

DATED this 19th day of October, 2007.

STAFF

By:________________________

IDAHO POWER COMPANY

By:________________________

CITIZENS' UTILITY BOARD

By:________________________

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STAFF	IDAHO POWER COMPANY
By:____________________	By: Lisa Rackner

CITIZENS' UTILITY BOARD

By:____________________

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STAFF

By:______________________

IDAHO POWER COMPANY

By:______________________

CITIZENS' UTILITY BOARD

By: Lowrey R. Brown