

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF PACIFICORP DBA)
ROCKY MOUNTAIN POWER'S) CASE NO. PAC-E-15-09
APPLICATION TO MODIFY THE ENERGY)
COST ADJUSTMENT MECHANISM AND) ORDER NO. 33440
INCREASE RATES)**

On May 27, 2015, PacifiCorp dba Rocky Mountain Power (“Rocky Mountain” or “Company”) submitted an Application seeking a Commission Order authorizing the Company to: (1) increase its electric rates by \$10.2 million, or 3.9% on average, effective January 1, 2016; and (2) modify the annual Energy Cost Adjustment Mechanism (“ECAM”). The ECAM is designed to annually adjust Rocky Mountain’s rates upward or downward to reflect the difference between the Company’s actual power supply costs and those power costs embedded in base rates. Order No. 32216 at 1. On June 11, 2015, the Commission issued an Order granting Petitions to Intervene filed by Monsanto Company (“Monsanto”) and PacifiCorp Idaho Industrial Customers (“PIIC”). *See* Order No. 33321.

On July 15, 2015, the Commission issued a Notice of Modified Procedure, Notice of Schedule and Settlement Conference. *See* Order No. 33339. The settlement conference was held on August 11, 2015, and was attended by representatives of the Company, Commission Staff, Monsanto and PIIC (hereafter collectively referred to as “the Parties”). Subsequently, the Parties agreed in principle to a Settlement Agreement (“Stipulation” or “Settlement”).

On October 15, 2015, after several months of mutual negotiation between the Parties, the Company filed a copy of the executed Stipulation with the Commission. The Settlement terms include an overall base rate increase of 3.9% with a “stay-out” provision prohibiting the Company from making any additional base rate changes prior to January 1, 2018.

On October 27, 2015, the Commission issued a Notice of Proposed Settlement Stipulation requesting comments on the Settlement. Staff and the Company submitted timely written comments in support of the Stipulation. Additionally, Snake River Alliance (“SRA”) submitted a letter expressing its support of the Settlement. In this Order we approve the Settlement.

THE APPLICATION

A. Net Power Costs (NPC) Update

Rocky Mountain's current base net power costs (NPC) were established in a general rate case in 2011, based on 2010 loads. According to the Company, all of the NPC components have changed, thereby increasing the annual NPC by \$129 million.

Rocky Mountain asserted that it is more appropriate for these ongoing and permanent power costs to be recovered in base rates rather than through the ECAM. Consequently, the Company proposed to update the level of base NPC consistent with the level reported in the Company's Annual Report. The Company insisted that its current base NPC are \$1,514 million, or \$93.8 million on an Idaho-allocated basis. This compares to \$87.6 million on an Idaho-allocated basis based upon the 2011 general rate case. In other words, the Company maintained that the Idaho base NPC should be increased by at least \$6.2 million. By updating base NPC and allowing that level of expense to be included in base rates beginning January 1, 2016, Rocky Mountain argued that the ECAM will be better aligned to track annual fluctuations in NPC rather than long-term recovery of NPC currently being collected through the annual ECAM surcharges.

The Company stated that its proposed base rate increase of approximately \$10.2 million is derived from: (a) \$2.8 million associated with updating base system NPC from \$1,385 million to \$1,514 million total company (or \$93.8 million on an Idaho-allocated basis); (b) \$6.5 million for renewable energy credits ("RECs"); (c) \$0.2 million for renewable energy production tax credits ("PTCs"); and (d) \$0.7 million for the incremental amortization of the unrecovered investment (depreciation and depletion expense) in the Deer Creek Mine as requested by the Company in Case No. PAC-E-14-10 ("Deer Creek Mine Case").

B. Originally Proposed Modifications to the ECAM

Rocky Mountain initially proposed to make the following modifications to the current ECAM: (1) eliminate the 90/10% sharing band and allow for 100% recovery of prudently incurred NPC; (2) update the ECAM methodology to reflect retail sales at meter, to eliminate the need for Staff's base rate over-collection adjustment; (3) eliminate the LCAR; (4) no longer track DSM costs and SO2 sales in the ECAM; (5) include renewable energy production tax credits ("PTCs") in the ECAM and treat similar to NPC; (6) include a temporary adder in the ECAM until the amortization of the Deer Creek Mine unrecovered investment is included in base rates;

and (7) change the deferral period to correspond with the calendar year, and change the filing date to April 1 with rates effective June 1.

Rocky Mountain proposed to eliminate the 90/10 sharing band in the ECAM because it already proactively manages NPC. The Company believes that the sharing band is not an appropriate incentive because the Company has little to no control over the volatility and unpredictable nature of these costs. The Company believes that it has historically been penalized by the sharing band because the sharing bands and dead bands have been eliminated in almost all other states.

The Company proposed to add the incremental Deer Creek Mine depreciation expense that was collected through the ECAM into base rates with no sharing. This proposal is consistent with the Company's request in the Deer Creek Mine Case (PAC-E-14-10). It would allow the Company to continue to collect depreciation expense related to the Deer Creek Mine through its remaining depreciable life.

Rocky Mountain also argued that its resource mix has changed since the approval of its last ECAM in Case No. PAC-E-14-01. *See* Order No. 33008 at 15. The Company has become increasingly reliant on short-term market purchases due to more intermittent energy from the addition of QFs on the Company's system and other owned and contracted generation that serve its load, exposing the Company to the market and increased NPC volatility. Intermittent energy is highly dependent on the weather, which is entirely out of the Company's control, making NPC more unpredictable.

The Company believes that its new hedging policy also supports modifications to the ECAM. The Company updated its hedging policy: (1) by incorporating guidelines that allow a reasonable percentage of natural gas and power requirements to remain open to short-term market price exposure and (2) for operational flexibility.

Rocky Mountain proposed to change the ECAM's differential calculation method so that it is based on retail sales at the meter, eliminating the need for the method developed by Staff, known as the "base rate over-collection adjustment." The Company also proposed to eliminate tracking the LCAR, SO2 sales, irrigation load control and DSM costs from the ECAM. The LCAR should be eliminated because it is asymmetrical in that it only considers changes in loads (or sales going forward) but ignores changes in the actual underlying costs. Irrigation load control and DSM costs were included in the ECAM as stipulated in the 2011 general rate case

due to the uncertainty of the jurisdictional treatment of the irrigation load control program by the Multi-State Protocol (“MSP”) committee. MSP now dictates that DSM costs are situs assigned, thus eliminating the need to track these cost in the ECAM. The Company said that it has modified the DSM program to make it more cost-effective and aligned with the benefits received. The DSM program cost should not be part of the ECAM.

Rocky Mountain believes that revenues from SO2 sales have become immaterial and irrelevant, citing that the 2015 ECAM Idaho SO2 sales amounted to a \$71 credit to customers. The Company proposed tracking renewable energy production tax credits in the ECAM because the credits are directly tied to the energy production of the qualifying renewable generation facilities, which can vary significantly from year to year.

The Company proposed to change the ECAM deferral period to coincide with the calendar year (January to December) as opposed to the current December through November deferral period. The Company believes this change and the filing date change will make the ECAM easier to audit and align the deferral period with that used in all the other PacifiCorp jurisdictions.

C. Miscellaneous

Rocky Mountain stated that it provided notice of its Application to its customers through the issuance of a press release sent to local media organizations and bill inserts included in customer bills beginning in June. Copies of the Application were provided to many of the Company’s major customer representatives. In accordance with Rule 121(e), (f), and (g), Rocky Mountain represented that the Application, testimony, exhibits and workpapers support the costs the Company seeks to recover.

SETTLEMENT STIPULATION

After engaging in lengthy and comprehensive negotiations, the Parties reached an agreement to resolve all of the outstanding issues in the case. The following is a summary of the relevant terms of their Stipulation filed with the Commission on October 15, 2015. *See* Order No. 33403.

1. The Parties agree that Idaho retail revenues should increase by \$10.2 million (3.9%) effective January 1, 2016. The Parties further agree this increase will apply to all rate schedules as set forth in Exhibits 4 and 6.
2. The Parties agree that the \$10.2 million increase above current base rates will consist of: (a) a \$3.2 million increase after removing Deer Creek

depreciation/depletion expense from NPC currently approved in base rates, with Idaho base energy at meter of 3,483,480 megawatt hours, or \$27.21 per megawatt-hour; (b) a \$6.5 million increase associated with a reduction of the revenue credit from the sale of RECs; (c) a \$0.2 million change in tax affected production tax credits (“PTCs”); and (d) \$0.3 million incremental increase in exchange for the Company agreeing not to file a general rate case with rates effective prior to January 1, 2018.

3. Base rates and base NPC should be updated effective January 1, 2017. The updated base NPC will be the amount reported in the 2015 annual results of operations report, after appropriate pro forma adjustments. For the rate spread and rate design of the update to base rates, the Company will use an equal cents per kWh approach. Rocky Mountain Power will file an application no later than September 1, 2016.
4. Base rates established by this Stipulation will, in conjunction with the ECAM, result in reasonable rates for the period January 1, 2016 through December 31, 2017 (the “Stay-out Period”). During the Stay-out Period the Parties will not request the establishment of new regulatory assets or liabilities, which have not been previously approved by the Commission, except under unique or unforeseen circumstances. Unforeseen circumstances include natural disasters or emergencies.
5. The current ECAM will be modified for deferrals on and after January 1, 2016, to reflect that the ECAM will be measured on a dollar per megawatt-hour basis using load at the meter rather than the load at the generator.
6. The entire amortization expense associated with the unrecovered Deer Creek mine investment will be recovered through the ECAM as a separate line item, without application of the sharing band, until fully amortized.
7. The Customer/Company sharing band will remain at 90/10% respectively for all ECAM components with the exception of: PTCs, amortization of the unrecovered Deer Creek mine investment, RECs and the Lake Side 2 resource adder.
8. The load change adjustment rate (“LCAR”) will be updated to reflect base loads (at sales) corresponding to the period used to set base rates. The 2016 LCAR is summarized in the following table:

LOAD CHANGE ADJUSTMENT RATE CALCULATION

Description	PAC-E-10-07 Current Amount	PAC-E-15-09 Update Amount
1. Production - Return on Investment	833,083,414	833,083,414
2. Production - Expense	2,173,162,370	2,173,162,370
3. Production - NPC Expenses Production Revenue	<u>(1,748,001,871)</u>	<u>(1,748,001,871)</u>
4. Requirement (Excluding NPC)	1,258,243,913	1,258,243,913
5. System Load	57,460,901	57,460,901
6. Production \$ per MWH	21.90	20.89
7. Energy % (Demand & Energy)	25%	25%
8.	<u>5.47</u>	<u>5.22</u>
9.		
10. Idaho Energy @ Input	3,691,675	3,786,584
11. Idaho Production RR	20,193,462	19,776,001
12. Idaho Energy @ Meter	<u>3,328,058</u>	<u>3,483,480</u>
13. LCAR @ Meter	6.07	5.68

9. Effective January 1, 2016, SO2 revenues and demand side management costs will no longer be tracked in the ECAM.
10. The 2016 ECAM Deferral Period will include 13 months (December 1, 2015 to December 31, 2016), and all subsequent ECAM filings will be based on calendar year deferrals. The Company's ECAM applications will be filed annually on April 1, with a rate effective date of June 1.
11. The Company and Monsanto agree to extend the current terms of the existing Electric Service Agreement governing curtailment products and payments through December 31, 2017.

Finally, the Stipulation acknowledges that the obligations of the Parties are subject to the Commission's approval of the terms and conditions of the Stipulation and, if any judicial review is sought, upon such approval being upheld on appeal by a court of competent jurisdiction.

STAFF COMMENTS

Staff reviewed the Application, workpapers, results of operations, Idaho ECAM filings and net power supply expense (NPSE) adjustment filings in other jurisdictions to establish a position in this case. Staff believes that the Stipulation represents a reasonable compromise of NPSE recovery issues resulting in limited customer impact and rate stability through January 1, 2018.

Staff remarked that the Stipulation addresses a variety of power supply expense issues and how they are recovered by the Company through rates. A summary of the Parties' Stipulation precedes this section and will not be included here. However, Staff noted that the elimination of the load change adjustment (LCAR) and ECAM sharing percentages, proposed by the Company in its Application, were not accepted nor included in the Stipulation.

Staff explained that the expenses addressed in the Stipulation are all part of net power supply expense (NPSE) subject to either ECAM recovery, base rate recovery or a combination of the two. The vast majority of the base rate increase proposed in this Stipulation is due to shifting NPSE currently recovered through the ECAM to base rate recovery at 100%. As NPSE in base rates increase, customers will pay more costs upfront and fewer costs through the ECAM later.

1. Base Rates. The source of the base rate increase contemplated in the Stipulation breaks down into two sets of costs: (1) a \$3.157 million increase in net power cost (NPC) subject to 90/10 customer sharing; and (2) an increase of \$7.023 million in NPSE (defined as all costs and revenues tracked through the ECAM) not subject to sharing.

The \$3.157 million NPC base rate increase is actually the net of several different expense changes, including: (1) a \$2.88 million increase in general power supply expenses; (2) shifting \$684,000 in Deer Creek Mine depreciation from base rate recovery to 100% ECAM recovery; and (3) an additional \$965,000 NPC base rate increase in exchange for a two-year rate case stay-out. The actual customer impact of the \$3.157 million NPC base rate change is approximately \$384,000 per year or the 10% sharing that would have occurred had the \$3.84 million (\$2.88 million and \$965,000) been recovered through the ECAM.

The \$7.023 million base NPSE increase not subject to sharing includes: (1) a renewable energy credit (REC) reduction of approximately \$6.5 million (this reduction is currently tracked through the ECAM at 100%); (2) a \$215,000 base rate increase for a PTC decrease (not currently included in NPSE or tracked through the ECAM); and (3) an additional \$289,000 increase in exchange for the two-year stay-out.

Staff believes there is no customer impact from the NPSE base rate reduction in RECs because this reduction is currently tracked through the ECAM at 100%. The PTC base rate change of \$215,000 reflects a reduction associated with generation at Company-owned renewable facilities. The final base rate increase of \$289,000 in non-power supply expense results from a compromise between the Parties and is a cost of the stay-out provision. This base

rate increase does not otherwise track through the ECAM and is recoverable from customers at 100%. The combined net customer impact of all base rate changes is approximately \$889,000 per year or about 0.34% more than what customers would pay through current base rates and the ECAM.

2. ECAM. Staff supported several changes to the ECAM proposed in the Stipulation. The first change is ECAM tracking and 100% recovery of approximately \$1.3 million in annual Deer Creek Mine amortization expense. This provision removes \$684,000 of mine depreciation expense currently included in base rate NPSE and combines it with an additional \$617,000 in amortization expense to track through the ECAM until unrecovered Deer Creek Mine capital costs are fully amortized in 2020. Staff noted that the Commission approved full amortization of unrecovered Deer Creek Mine capital costs in Order No. 33304 (PAC-E-14-10).

Staff supported removal of DSM expense and SO2 revenue tracking. SO2 revenue tracking has become very small over time and does not change significantly from year to year. Staff believes these changes will not affect base rates and will have minimal effect on future ECAM deferral balances.

Staff approved of PTC changes in actual NPSE tracked at 100% in the ECAM deferral balance. Staff believes PTCs legitimately affect power supply expense from year to year as energy generated from Company-owned renewable resources change. Staff analyses revealed that significant reductions are expected to occur beginning in about 2018 as credits associated with generation are eliminated.

Staff supported all of the ECAM modifications found in the Stipulation. According to Staff the new deferral calculation methodology eliminates the need for the “Base-rate-Over-Collection Adjustments” that have been applied to the Company’s proposed deferrals and approved by the Commission in the last two ECAM cases (Order No. 33008 in PAC-E-14-01; Order No. 33265 in PAC-E-15-01). When the adjustments approved by the Commission in the prior cases are applied to the Company’s current deferral calculation methodology, it is equivalent to the ECAM methodology changes proposed in this Stipulation. The proposed changes effectively eliminate line-loss bias identified as a major source of inaccuracy in determining the over or under recovery of ECAM related cost embedded in base rates; thus ensuring that customers pay no more and no less than actual cost, minus sharing. The calendar

year ECAM period better aligns ECAM expense deferral with Company calendar year results of operations.

3. Rate Spread and “Stay-Out” Provision. While the overall base revenue increase will be approximately 3.9%, the revenue impact on each customer class will vary due to the uniform increase of 0.292 cents-per-kWh applied to all energy used within the class. The table below shows the increase in revenue for each class and the corresponding percentage:

Customer Class	Present Revenue	Proposed Revenue	Change (\$)	Change (%)
Total Residential (Sched. 1 & 36)	\$70,109	\$72,090	\$1,981	2.8%
Large General Service (Sched. 6 & 6A)	\$25,308	\$26,283	\$975	3.9%
Irrigation (Sched. 10)	\$52,555	\$54,316	\$1,761	3.4%
General Service (Sched. 23 & 23A)	\$17,742	\$18,289	\$547	3.1%
Special Contract 1	\$82,747	\$86,967	\$4,220	5.1%
Special Contract 2	\$5,950	\$6,264	\$314	5.3%
Total (All Classes)	\$263,315	\$273,496	\$10,181	3.9%

(Revenue shown in \$1,000's)

While customers will see an increase in base rates on January 1, 2016, they will see an almost equal reduction in the ECAM in 2017. Given that the base rate increase primarily recovers variable energy costs that would otherwise be recovered through the ECAM on an equal cents-per-kWh basis, Staff believes it is reasonable to increase base rates on an equal cents-per-kWh basis. Beyond the base rate increase proposed to take effect on January 1, 2016, the Stipulation provides for a review of actual 2015 power supply expenses and an additional base rate NPC adjustment effective January 1, 2017, if necessary. Again, any NPC paid by customers through base rates, will not be subject to recovery through the ECAM.

Staff pointed out that it is also possible that a review of 2015 power supply expenses could result in a decrease in base rate NPC. Regardless, Staff believes it is reasonable for purposes of settlement in this case to update base rate NPC during the stay-out period. Staff fully supported the stay-out provision and believes it will result in lower rates than would otherwise occur and provide relative rate stability for the next two years.

ROCKY MOUNTAIN COMMENTS

Rocky Mountain asserted that the Stipulation represents a compromise of the Parties positions, provides significant customer benefits and will result in fair, just, and reasonable rates for Idaho customers. If the Commission approves the proposed Stipulation, Rocky Mountain stated that the average residential customer using 800 kWh per month would see their bill

increase by \$2.35 per month in 2016, followed by an undetermined decrease in their ECAM surcharge in 2017 due to a higher level of NPC recovery in base rates during 2016. Finally, the Company also acknowledged that it has agreed with Monsanto to extend the current terms of their existing Electric Service Agreement governing curtailment products and payments through December 31, 2017.

SRA COMMENTS

On November 6, 2015, SRA submitted a letter in support of the Parties' proposed Stipulation. SRA stated that despite not being a party to this case, it has reviewed the documents filed, including the Stipulation. SRA appreciates that the Parties were able to reach a Settlement that the SRA believes is in the best interest of Rocky Mountain's customers. SRA supported the Stipulation.

SRA supported allowing the utility to recover ongoing and permanent power costs through base rates rather than through the ECAM. SRA believes that, while there will be a ratepayer impact should the Commission approve the Stipulation, the projected increase of \$2.35 a month for the average Rocky Mountain residential ratepayer is almost certainly far lower than a possible rate increase that could occur should this case be fully litigated as a general rate case.

SRA also appreciated that the Parties agreed to a two-year Rocky Mountain "stay-out" that will forestall the next base rate increase to no sooner than January 1, 2018. SRA believes that avoiding the need to litigate a rate case is almost always in the best interest of all parties and customers. The amount proposed to be shifted into permanent base rates, while not insignificant, is reasonable. SRA noted that of the \$10.2 million currently collected through Rocky Mountain's annual ECAM, \$6.5 million is attributed to revenues from the trading of renewable energy credits (RECs) that the Company will no longer realize.

SRA also supported terms of the Stipulation that spread the amount across all rate schedules. SRA appreciated the Company's willingness to "file an application . . . no later than September 1, 2016," to incorporate several changes. Finally, SRA supported the decision to remove revenues from SO₂ allowance sales from the ECAM. SRA expressed its appreciation for the opportunity to comment on PAC-E-15-09, and recommended that the Commission approve the proposed Stipulation.

MISCELLANEOUS PUBLIC COMMENTS

The Commission only received one public comment regarding the Company's initial Application. This commenter asked the Commission to deny Rocky Mountain's proposed modification to the ECAM. There were no comments addressing the proposed Settlement.

COMMISSION FINDINGS AND DECISION

The Commission has conducted a thorough review of Rocky Mountain's Application, attached exhibits, the Stipulation, Parties' comments in support of the Stipulation, and the two public comments filed in this case. Preliminarily, the Commission notes that it is not bound by the Stipulation reached by the Parties. When a settlement is presented to the Commission, the Commission will determine the procedures appropriate to review the settlement. In this case, the Commission issued a Notice of the Proposed Settlement and invited public comment. The parties in support of a settlement carry the burden of showing that the settlement is reasonable, in the public interest or otherwise in accordance with regulatory policy. Rule 275, IDAPA 31.01.01.275. The Commission "will independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." Rule 276, IDAPA 31.01.01.276.

The Commission acknowledges and commends the Parties for their efforts in reaching a settlement of the ECAM cost recovery issues presented in this case. Pursuant to the Commission's authority under *Idaho Code* § 61-502 to determine "just, reasonable, or sufficient rates," the Commission approves the Parties' Stipulation. The Commission finds that the Stipulation pertaining to Rocky Mountain's request to increase rates, effective January 1, 2016, and modify certain provisions of the Company's annual ECAM is fair, just and reasonable. *Idaho Code* § 61-622.

The Stipulation includes necessary updates in the Company's base NPC and helpful revisions to the current ECAM process. The Commission also finds that the Stipulation represents a reasonable compromise of the various positions, concerns, and issues raised by the Parties. The hallmark of reasonable compromise is a mutually beneficial resolution for both sides of a transaction. Accordingly, the Commission finds that the Stipulation offers substantive benefits to both ratepayers and the Company.

The Commission believes that the monthly increase in electric rates, 2.8% for residential customers and a 3.9% average increase for all customers, allows the Company a fair

and reasonable recovery of its established annual energy costs. Moreover, the “stay-out” provision of the Stipulation provides rate stability by mitigating the potential for more significant increases through the end of the 2017 calendar year. More importantly, the increase in base rates for 2016 will later be accompanied by a roughly commensurate decrease in the annual ECAM paid by customers in 2017. We find these terms in the public interest. Therefore, the Parties’ Stipulation is approved by the Commission without change or condition.

ORDER

IT IS HEREBY ORDERED that the Commission approves the terms and conditions of the Parties’ Settlement Stipulation as discussed in greater detail above. Modifying the current ECAM process will increase the Company’s Idaho retail revenues by \$10.2 million (applying to all Idaho customer rate schedules) and become effective on January 1, 2016.

IT IS FURTHER ORDERED that the new electric service schedules and tariffs previously submitted by the Company on May 27, 2015, are approved.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

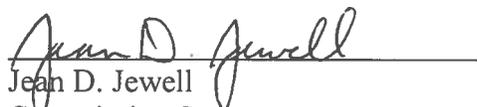
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 23rd
day of December 2015.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


KRISTINE RAPER, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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