

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
IDAHO POWER COMPANY FOR AUTHORITY) CASE NO. IPC-E-96-18
TO INCLUDE IN ITS POWER COST ADJUST-)
MENT COMPUTATIONS THE FIRM POWER)
PURCHASE FROM ARIZONA PUBLIC) ORDER NO. 26668
SERVICE.)
_____)
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On August 23, 1996, the Idaho Power Company (Idaho Power; Company) filed an Application for an Order allowing the Company to include the costs of a firm power purchase from Arizona Public Service (APS) in Idaho Power's power cost adjustment (PCA) mechanism.

In Order No. 24806, issued in Case No. IPC-E-92-25, the Commission authorized the implementation of a PCA mechanism for Idaho Power. Under that Order, the Company is required to apply to the Commission for approval to include in its PCA computations any firm capacity purchases. According to the Company, its integrated resource plan (IRP) published in June 1995 indicated that, utilizing normal forecasting criteria, the Company could expect capacity and energy deficits to occur in December and January beginning in 1995 and continuing through 2003. According to the IRP, Idaho Power plans to meet these deficits by market purchases. The Company noted in the avoided cost methodology case (Case No. IPC-E-95-9), that the current standard length of market purchases does not exceed five years.

Idaho Power states that, consistent with these criteria, it was able to negotiate a favorable rate from APS for a five-year firm power supply. The purchase contract is for 100 MW at a 100% load factor during each of the months, September through March. The contract is to run for a five-year period from September 1996 through March 2001. The capacity rate remains constant over the five-year period at \$1.50/KW/month which, at a 100% load factor, is approximately 2 mills per KWh. Energy rates increase gradually over the life of the contract starting at 18.69 mills per KWh and ending at 21.75 mills per KWh. According to its Application, the Company entered into this agreement to satisfy firm energy and capacity needs identified in its June 1995 IRP.

On September 19, 1996, the Commission issued a Notice of Modified Procedure soliciting comments in response to the Company's Application. Those comments are summarized below.

Commission Staff Comments

According to Staff's analysis of the Company's IRP, the APS purchase covers demonstrated need and allows the Company to meet or exceed a minimum reliability standard which has substantial benefits to Idaho Power's ratepayers. Staff notes that in Order No. 24806, the

Commission specifically excluded from the PCA any future non-CSPP firm purchases without prior Commission approval. Because the Company's IRP indicates that future resource acquisitions will come in the form of relatively short-term market purchases, as opposed to the construction of new generating facilities, Staff contends that the only means by which a prudency review can be accomplished is if these purchases are not automatically included in the PCA but independently analyzed by the Commission.

Staff notes that while the purchase rates set forth in the APS contract may have been reasonable at the time the letter agreement was executed, the price of energy and capacity has continued to fall since those negotiations. Staff concludes that lower prices today indicate that, at the least, the initial prices under the contract are too high.

As noted, Staff believes that the power purchased under the contract does provide some benefits to Idaho Power's ratepayers. First, the addition of the new 100 MW resource in the Company's resource pool immediately reduces the need to purchase on the nonfirm market. Second, it increases the Company's ability to make nonfirm sales. Finally, it reduces the Company's fuel cost. Also, if all or part of the purchase goes to meet firm load growth, actual power supply costs captured within the PCA are reduced by 16.84 mills/KWh. Staff concludes that a combination of all these things occur as a direct result of adding this contracted resource to the Company's resource pool whether or not PCA treatment of the contract is allowed. Staff believes, therefore, that it would be unfair to the Company to allow these ratepayer benefits to accrue within the PCA without allowing the Company recovery of the reasonable costs that make benefits possible.

On the other hand, if the Company is allowed to include the full cost of the APS power purchase in the PCA, Staff contends, the net affect will be an increase in customer rates. This is because contract costs will exceed PCA benefits. The benefits of reduced nonfirm purchases and increased nonfirm sales in terms of mills/KWh, average in the mid to upper teens. The benefits of reduced fuel costs and increase contract costs, including both energy and capacity begin at 20.75 mills/KWh and increase to 23.81 mills/KWh over the life of the contract. Staff concludes that because under market conditions lower price capacity and energy are likely to be available, it would be unfair to ratepayers to allow the full APS contract costs in the PCA.

Staff believes that the APS contract power costs negotiated in mid 1995 and presented to the Commission for PCA treatment more than a year later are stale and unacceptable. Staff's position is not that the APS purchase is unnecessary but that it is unreasonably priced in today's market. Staff considered a number of alternatives for compensating the Company for the benefits the APS purchase provides to ratepayers without unduly burdening those ratepayers with an unreasonably priced resource. Staff chose the alternative of allowing the PCA costs of the APS contract to be included in the PCA at 16.84 mills/KWh. If this price is used as the cost of contract power, the costs and benefits reflected in

the PCA of the sale should be approximately equal. If the entire 100 MW is required to serve firm load growth, the Company receives the revenue from those firm sales and other customers are held harmless because the PCA load growth adjustment backs out the power cost at 16.84 mills/KWh. If contract costs allowable for PCA purposes are set at 16.84 mills/KWh and the Company had to sell all the APS contract power on the nonfirm market, nonfirm revenues, which average somewhere in the mid teens, would approximately offset the contract costs and once again would not affect other customers rates. Therefore, it is Staff's recommendation that the costs of the APS contract be allowed in the PCA at 16.84 mills/KWh.

Idaho Power Response

On October 25, 1996, the Idaho Power Company filed its response to Staff's comments. Idaho Power does not dispute the factual assertions set forth in Staff's comments. The Company takes exception, however, with the contract costs in the PCA. Idaho Power states that the Commission Staff recommendation places the stockholders of Idaho Power at risk by having the Commission set a retroactively determined floor as to the amount of power supply costs that would be included in the PCA as a result of the APS purchase. Reply Comments at p. 2. Idaho Power concludes that under Order No. 24806, the Commission must either approve or disapprove allowing the inclusion of the contract costs in the PCA in their entirety.

Arizona Public Service

On October 28, 1996, the Arizona Public Service Company (APS) filed comments in response to the comments submitted in this case by the Commission Staff. APS states that the Memorandum of Understanding (MOU) it executed with Idaho Power regarding the contract in question is binding with respect to the terms and conditions set forth therein. APS states that shortly after it signed the MOU, it made other independent arrangements to provide additional firmness for the power to be supplied to Idaho Power pursuant to the MOU. APS states that Idaho accepted the risk that market prices would fluctuate subsequent to the execution of the MOU and that the Company must honor its obligations regardless of what those prices may now be. APS asks that the Commission, in its final Order issued in this case, express the expectation that Idaho Power will honor its agreement with APS.

FINDINGS

We hereby deny Idaho Power's Application to include the purchase of firm capacity from APS in the Company's PCA under the rates proposed in the Application. Our decision is based primarily on the fact that the initial agreement between the parties is more than 15 months old and the contract rates appear to be significantly higher than current market rates as evidenced by the failure of either Idaho Power or APS to refute Staff's association to this effect. While we appreciate the

shortcomings inherent in hindsight analysis of resource acquisition decisions, we simply cannot justify saddling ratepayers with power costs that are as dated and out of line with current market conditions as those found in the APS contract. Regardless of what contractual obligations Idaho Power may or may not have with respect to the APS purchase, we find that it would not be fair, just or reasonable to include the costs of this purchase in the Company's PCA.

Regarding the comments submitted by the APS, we find that it is not within our authority, as defined in Title 61 of the Idaho Code, to resolve or take a position with respect to contractual disputes that a regulated utility may have with other parties. We decline APS's request that we urge Idaho Power to take any particular position with requests to the MOU executed between those two parties.

In light of the foregoing, we find that the contract costs already incurred by Idaho Power to date with respect to the APS purchase shall not be included in the Company's PCA. Furthermore, no future costs with respect to that purchase shall be included in the PCA at the rates set forth in the MOU and the Company's Application. Contrary to Staff's recommendation, we are not inclined to choose a specific contract rate that Idaho Power would be permitted to factor into the PCA. In the event Idaho Power wishes to factor the APS costs into the PCA at some other level, then the Company is free to make such a request to this C

ORDER

IT IS HEREBY ORDERED that Idaho Power's Application to factor the costs of the APS contract into the Company's PCA at the rates set forth in the Company's Application is denied.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-96-18 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-96-18. 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 day of October 1996.

RALPH NELSON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters
Commission Secretary

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