

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER REDFORD  
COMMISSIONER SMITH  
COMMISSION SECRETARY  
COMMISSION STAFF

**FROM:** DON HOWELL  
DEPUTY ATTORNEY GENERAL

**DATE:** JUNE 16, 2011

**SUBJECT:** IDAHO POWER RATE CASE APPLICATION, CASE NO. IPC-E-11-08

On June 1, 2011, Idaho Power Company filed an Application seeking authority to increase the Company's base rates for electric service in Idaho by an overall average of 9.9%. If approved, the Company's revenues from base rates would increase by approximately \$83 million per year.

### THE APPLICATION

Idaho Power is a public utility primarily engaged in the generation, transmission and distribution of electric power in southern Idaho. It serves nearly 500,000 customers in Idaho and Oregon. The Company maintains that since its last general rate case in 2008, it has invested over \$450 million in infrastructure necessary to provide service to customers. Company Vice President Greg Said indicates that continued growth in the demand for electricity, investments in aging infrastructure, and expenses related to additional compliance and reliability requirements are driving the need for investments to expand and improve the Company's electric system.

Idaho Power's Application is based upon actual 2010 data updated to 2011 levels. The Company requests that calendar year 2011 be used as its test year. Application at 5. The Company also requests that the Commission grant it a 10.5% return on equity resulting in a return on its rate base of 8.17%. The Company projects that its Idaho retail rate base will be \$2,355,906,412. *Id.*

## PROPOSED RATES

The Company proposes that the monthly service charge for residential and small business customers be increased by \$1.00 to \$5.00 per month. *Id.* AT 3-4. The Company also proposes to increase the second tier for summer residential rate and is proposing to modify Schedules 4 and 5 to offer two time-of-day periods for energy charges during the summer and non-summer months. *Id.* at 3. The Company is also proposing to increase the rates for small commercial customers (Schedule 7), large business customers (Schedule 9), industrial customers (Schedule 19), and irrigation customers (Schedule 24) moving those rates “five percent closer to the cost-of-service for these customer classes.” *Id.* at 4. The Company seeks authority to remove the 1.5% limitation for recovery of “general overhead costs” and instead recover its actual overhead costs. *Id.* at 5.

The proposed percentage increases for the major rate schedules are reflected in the table below:

<u>Customer Class</u>	<u>Proposed Increase</u>
Residential (Sch. 1)	8.83%
Small Commercial (Sch. 7)	14.85%
Large Commercial (Sch. 9)	7.28%
Industrial (Sch. 19)	14.84%
Irrigation (Sch. 24)	14.85%

Source: Application, Atch. 3

Idaho Power also proposes to increase the rates for three of its four special contract customers (Simplot, Department of Energy (INL), and Micron) by 14.85%. For Hoku Materials, the Company proposes to increase the second block demand in energy charges by 14.84%. Application at 3, Atch. 3.

The Company claims that its expenditures related to energy efficiency and demand response have outpaced the recovery of these costs through the “Energy Efficiency Rider” currently set at 4.75%. Application at 5. Consequently, the Company seeks authorization to treat demand response incentives as power supply expenses and establish a “normal” level of cost recovery in base rates of approximately \$11.3 million. *Id.* at 6. The Company also calculates its load change adjustment rate (LCAR) at \$19.28 per MWh using the methodology set out in Commission Order No. 32206. *Id.*

The Company also proposes to update the rates for its “fixed-cost adjustment” (FCA) mechanism for residential and small business customers. The FCA mechanism “is designed to

remove the financial disincentives to utility acquisition of demand-side management resources. The mechanism accomplishes this goal by severing the link between energy sales and the recovery of fixed costs.” *Id.* at 6. The Company has calculated that the annual fixed-cost per residential customers is \$678.96, resulting in a FCA rate per kilowatt-hour of \$0.053849. For small commercial customers, the Company calculates that its annual fixed-cost is \$395.28, resulting in a per customer FCA rate of \$0.075239 per kWh. *Id.* The Company also requests that the three-year pilot program for the FCA mechanism be made permanent.

#### **EFFECTIVE DATE**

The Company’s tariff schedules are to become effective for service rendered on or after July 1, 2011. Application at 8. However, the Company recognizes that under the terms of the Stipulation approved in the Company’s last rate case (IPC-E-09-30), it is prohibited from increasing its base rates before January 1, 2012.<sup>1</sup> More specifically, the Stipulation provides that “Idaho Power will not file a general revenue requirement case which would result in a general rate adjustment becoming effective prior to January 1, 2012.” Stipulation at 5.1 (Case No. IPC-E-09-30). In comments supporting the Stipulation, Idaho Power Vice President John Gale commented that under “the moratorium, the Company cannot file for a change to general rates, unless otherwise specified, prior to January 1, 2012.” Dir. at 15. He later explained that the moratorium benefits customers because the Company “will delay a general rate change until on or after January 1, 2012.” Dir. at 17.

Even though the Company acknowledges that it cannot increase its base rates until January 1, 2012, the Company “expects the Commission will suspend implementation of the Company’s proposed rates for the statutory period set forth in *Idaho Code* § 61-622 (30 days plus 6 months). Thus, any new rates established [in the present case] would not become effective until 2012.” Application at 8. In summary, the Company believes that under the terms of the Stipulation it may file a general rate case so long as its base rates do not become effective prior to January 1, 2012.

#### **CUSTOMER NOTICE**

The Company indicates that its Application will be brought to the attention of its customers by means of news releases and the individual customer notices mailed to all

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<sup>1</sup> The Stipulation does allow specific increases other rate mechanisms such as the Power Cost Adjustment (PCA), the Fixed-Cost Adjustment (FCA), recovery of advanced metering deployment, pension expenses, and changes in the Energy Efficiency Rider. Order No. 30978 at 4.

customers. Staff believes the customer notices comply with the requirements of Customer Rule 125. IDAPA 31.01.01.125.

### STAFF RECOMMENDATION

Staff recommends that the Commission issue a Notice of Application establishing a 10-day deadline for intervention. Once the intervention deadline has passed, the Commission Secretary may create a Notice of Parties. Staff further recommends that the parties convene an informal scheduling conference to discuss the processing of this case.

Regarding the proposed effective date, Staff questions whether the Commission needs to exercise its suspension authority under *Idaho Code* § 61-622 given the terms of the prior Stipulation. It is Staff's intent to process this rate case in the normal course of events so that rates may become effective on January 1, 2012.

### COMMISSION DECISION

Does the Commission wish to issue a Notice of Application and establish a 10-day deadline for intervention?

What does the Commission wish to do regarding the Company's proposed effective date of July 1, 2011?



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Don Howell  
Deputy Attorney General

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