

KRISTINE A. SASSER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
BAR NO. 6618

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UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
CAPITOL WATER TO ESTABLISH A NEW) CASE NO. CAP-W-09-1
TARIFF RATE TO RECOVER ITS POWER)
COSTS.) COMMENTS OF THE
) COMMISSION STAFF
)
_____)**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 30850 on June 23, 2009, in Case No. CAP-W-09-1, submits the following comments.

BACKGROUND

On May 8, 2009, Capitol Water Corporation filed an Application for authority to establish a new tariff rate to recover the Company's increased cost of electricity corresponding to Idaho Power Company's recently approved Rate Schedule No. 55, "Power Cost Adjustment." Capitol Water requests that the Application be processed by Modified Procedure.

In April 2009, the Commission issued final Order No. 30762 that established just and reasonable rates for Capitol Water. In that Order the Commission allowed Capitol Water to recover its expenses for electricity by utilizing a three-year consumption average. The

Commission determined the Company's average annual electricity consumption to be 1,454,401 kWh. Order No. 30762 at 3.

Capitol Water requests a new tariff rate to recover its cost of electricity related to the recent increase in Idaho Power Company's Schedule No. 55, Power Cost Adjustment (PCA)¹.

Capitol Water proposes a change to its Schedule No. 3 (Other Recurring and Non-recurring Charges) for a period of one year to allow it to collect additional revenue (electricity costs + the cost of filing its Application in this matter). Capitol Water maintains that, in each subsequent year, it will review Idaho Power's PCA applications and file with the Commission appropriate requests to pass through any increases or decreases in electric power costs to its customers.

INTERIM ORDER

Capitol Water's Application in this case is based entirely on the change in Idaho Power's PCA rate. Therefore, the Commission found it reasonable to allow Capitol Water Company to implement an increase (subject to refund) on July 1, 2009, consistent with the Commission-approved Idaho Power PCA rate of 1.4022 cents per kWh. Order No. 30850. The Commission further found that because the rate increase is subject to refund, ratepayers are protected from an unreasonable rate increase until the Commission has completed its review of the reasonableness and prudence of the Company's proposed changes. On June 24, 2009, Capitol Water filed a new Schedule No. 3 in compliance with Order No. 30850 and the Commission subsequently issued a Minute Order on June 30, 2009 approving the interim tariff.

STAFF ANALYSIS

Capitol Water requests a new tariff rate to recover its electric costs related to the change in Idaho Power's Schedule 55, Power Cost Adjustment (PCA). Capitol Water observed that Idaho Power had requested an increase in its PCA rate from 0.7864 cents per kWh to 1.4717 cents per kWh to be effective June 1, 2009. Based on Capitol Water's average annual electricity consumption and the Idaho Power's proposed PCA increase, the Company contended that it would incur additional electricity costs of \$9,967.01, or a 13.02% increase in total electric costs.

¹ On May 29, 2009, the Commission issued Order No. 30828 approving an increase in Idaho Power's PCA rate. The PCA rate was set at 1.4022 cents per kWh effective June 1, 2009.

Based on the Commission's determination of the Company's three-year average electrical consumption used in its 2008 rate case, the total electric cost to Capitol Water using Idaho Power's Commission approved PCA rate of 1.4022 cents would be \$20,393. This results in an increase of \$8,956 in total electric costs. Adding \$500 for the requested rate case expenses (Application, p. 2) results in a total calculated incremental cost to Capitol Water of \$9,456. Using the Company's approved total revenue requirement of \$651,738, the percent increase of total revenue needed to recover the incremental PCA cost is 1.45%.

Staff considers the effect of the recent increase in Idaho Power's PCA to be a burden on the Company's financial status. Consequently, Staff believes that recovering this incremental increase in power cost through a rate increase is prudent and reasonable.

The Company states in its Application that it will review, in each subsequent year, Idaho Power's PCA applications and make its own appropriate applications to the Commission to pass through any increases or decreases in electric power cost. Application, p. 2. The Company did not explain its criteria in determining when to file an appropriate application for adjustments.

Staff notes that Idaho Power's PCA is adjusted generally once a year with an effective date usually set in May or June. See Attachment I. The annual PCA surcharge or credit is combined with Idaho Power's "base rates" to produce an overall energy rate. To verify the impacts of PCA changes to Capital Water's base revenue approved in Order No. 30762, Staff analyzed several PCA scenarios. The results of Staff's analyses are shown in Attachment II. As one might expect, the analyses reveal that future Idaho Power PCA adjustments could trigger either an increase or decrease in Capital Water's electric costs and, thus, its rates if the revenue impact exceeds Staff's proposed threshold.

Staff believes when a change in Idaho Power's PCA is small, it may not be reasonable for the Company to change its rates. The extra time, effort and cost involved in preparing, filing and processing a case before the PUC and the possible confusion caused by a change may not be justified for recovery of a small change in power costs. There should be a balance between the benefits of applying for adjustments (added revenue to the Company or reduced rates for the customers) versus the cost incurred by the Company in filing an application for rate adjustments (including the associated costs of changing the customer invoices to reflect the change).

Staff recommends that an upper and lower limit of approximately 0.25% increase and

-0.25% decrease, respectively, of Capitol Water's base revenue requirement be used as criteria for determining when a power cost adjustment should be filed. This is equivalent to a change in power supply costs of approximately plus or minus \$1,629 per year. While the selection of the trigger limits is somewhat arbitrary, Staff believes the proposed revenue band adequately compensates Capitol Water when its power costs change significantly. At the same time, it limits annual rate changes and the additional time, effort and costs to the Company in making the filing and changing billing documents.

These recommended limits would only be applicable to Capitol Water while the Commission approved normalized electric consumption of 1,454,401 kWh and base revenue requirement of \$651,738 are in effect. New normalized kWh consumption and any altered revenue requirement set by the Commission in future rate cases will trigger a new calculation for incremental power cost adjustments.

STAFF AUDIT

Staff conducted an audit of the rate case expenses. Staff is informed by the Company's consultant that the estimated rate case costs have increased from the initial \$500, and that the current costs would further increase before the case is over. Staff asked the Company to estimate the additional amount needed to finish processing the case. The Company's consultant estimates that he will spend another 1.5 hours to complete the final tariffs after the final order has been issued in this case. To date, the Company has spent \$1,147.50 in rate case costs and the estimate for the total charges for the case is \$1,275.

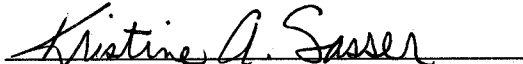
Staff recommends that the increase in rate case expenses not be adjusted. Staff notes that the current and estimated rate case costs of \$1,275 are 14.24% of the incremental power costs. Staff notes that the additional rate case expenses of \$775 should not be overly burdensome to the Company, and that there is already an amount built into rates for this type of expense. Therefore, Staff recommends that the current surcharge not be increased for rate case expenses in excess of the original \$500 requested in Capitol Water's Application.

STAFF RECOMMENDATIONS

Staff recommends the interim increase approved by Order No. 30850 covering the PCA increased expenses of \$8,956 plus \$500 in rate case expenses be made permanent. The total increase of \$9,456 results in a 1.45% incremental increase.

Staff also recommends a band be utilized to determine when it is appropriate for Capitol Water to file an Application to recover electric costs based on Idaho Power's PCA adjustments. The recommended band is plus or minus approximately 0.25% of the Company's base revenue requirement or \$1,629 per year.

Respectfully submitted this 14TH day of July 2009.



Kristine A. Sasser
Deputy Attorney General

Technical Staff: Kathy Stockton
Gerry D. Galinato
Chris Hecht

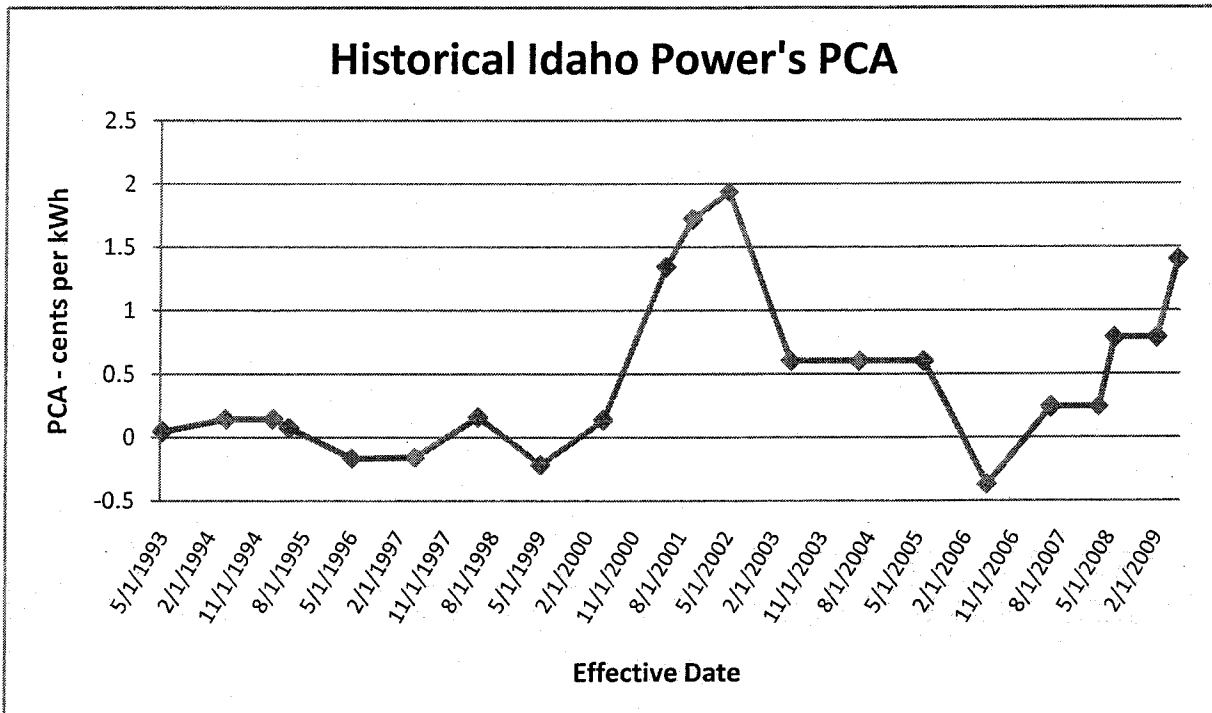
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Capitol Water Corporation

Case No. CAP-W-09-01

Historical Idaho Power Company's PCAs (Schedule 9)

Effective Date	PCA (cents/kWh)
6/1/2009	1.4022
2/1/2009	0.7864
6/1/2008	0.7864
3/1/2008	0.2419
6/1/2007	0.2419
6/1/2006	-0.3689
6/1/2005	0.6039
6/1/2004	0.6039
5/16/2003	0.6039
5/16/2002	1.937
10/1/2001	1.7241
5/1/2001	1.3415
5/16/2000	0.1371
5/16/1999	-0.2143
5/16/1998	0.1598
5/16/1997	-0.1552
5/16/1996	-0.1635
5/16/1995	0.0755
2/1/1995	0.1449
5/16/1994	0.1449
5/16/1993	0.0487



Capitol Water Corporation
Case No. CAP-W-09-01

Various PCA Scenarios and their Impacts on Rates

Average kWh(Base-Order No. 30762): 1,454,401 kWh
 Base Revenue Requirement (Order No. 30762) \$ 651,738
 PCA for Base year (Prior to Order No. 30828) \$ 0.007864 per kWh
 Cost for Preparing and Filing an Application \$ 500.00

Scenario	PCA	PCA Cost to Company	PCA Cost for Base Year	Incremental PCA Cost to Base	Add. Filing Cost	Total PCA Cost to Base	% Rate incr. from Base RR	Comments-Impacts on Current Rates
Scenario 1								
Current PCA	\$ 0.0140220	\$ 20,393.61	\$ 11,437.41	\$ 8,956.20	\$ 500	\$ 9,456.20	1.45%	Present interim rate effective July 1, 2009.
Scenario 2								
PCA>Current PCA	\$ 0.0172410	\$ 25,075.33	\$ 11,437.41	\$ 13,637.92	\$ 500	\$ 14,137.92	2.17%	Used 10/1/01 PCA. Triggers increase in rate
Scenario 3								
PCA<Base PCA	\$ 0.0024170	\$ 3,515.29	\$ 11,437.41	\$ (7,922.12)	\$ 500	\$ (7,422.12)	-1.14%	Used 6/1/07 PCA. Triggers decrease in rate
Scenario 4								
Negative PCA	\$ (0.0015520)	\$ (2,257.23)	\$ 11,437.41	\$ (13,694.64)	\$ 500	\$ (13,194.64)	-2.02%	Used 5/6/97 PCA. Triggers decrease in rate
Scenario 5								
PCA=Base PCA	\$ 0.0078640	\$ 11,437.41	\$ 11,437.41	\$ -	\$ -	\$ -	0.00%	Assumed. No rate adjustment necessary

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF JULY 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-09-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

ROBERT PRICE
CAPITOL WATER CORP.
2626 ELDORADO
BOISE ID 83704
E-MAIL: capitolwatercorp@yahoo.com

ROBERT E SMITH
2209 N BRYSON RD
BOISE ID 83713
E-MAIL: utilitygroup@yahoo.com



SECRETARY

CERTIFICATE OF SERVICE