

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )**  
**OF CAPITOL WATER CORPORATION FOR ) CASE NO. CAP-W-14-01**  
**AUTHORITY TO INCREASE ITS )**  
**SCHEDULE NO. 3 PURCHASE POWER ) ORDER NO. 33128**  
**ADJUSTMENT RATE )**

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On July 11, 2014, Capitol Water Corporation (“Capitol Water” or “Company”) filed an Application to increase its Schedule No. 3 Purchased Power Adjustment Rate to “recover the Company’s cost of electricity related to Idaho Power Company’s (“Idaho Power”) electric rate schedules that have been approved by the Idaho Public Utilities Commission (“IPUC” or “Commission”).” *Application* at 1. Capitol Water initially proposed an effective date of September 1, 2014.

On July 30, 2014, the Commission issued a Notice of Application and Modified Procedure establishing a 21-day comment period. *See* Order No. 33086. Thereafter, Commission Staff was the only party to submit written comments within the established comment period.

On August 27, 2014, the Commission issued an Order suspending Capitol Water’s Application until September 15, 2014. The Company voluntarily agreed with the suspension of its Application and filed its reply comments in response to Staff’s comments.

**STAFF COMMENTS**

Staff reviewed Capitol Water’s initial request to replace the Company’s current Schedule No. 3 PPCA of 4.20% with a new PPCA of 4.53%. Staff determined that the increase in power cost above embedded base expenses falls inside the 0.25% band as set out in Order No. 30881. Therefore, Staff did not recommend an increase in the PPCA at this time. Staff also recommended the Company review the updated Rules of Procedure and include all required information in its customer notices and press releases in the future.

Staff comments addressed two issues: (1) whether the Company’s revenue request exceeds the revenue requirement band; and (2) the additional power costs above those currently embedded in base rates. Staff proposes corrections to both the revenue band calculations and additional power costs.

### ***Revenue Band***

In 2009, Capitol Water filed an application (Case No. CAP-W-09-01) to initially establish a tariff schedule to recover its cost of electricity related to the annual increase or decrease in Idaho Power's Power Cost Adjustment (PCA). In the 2009 case, the Commission ordered that "in the event that Idaho Power's PCA adjustment falls inside of Capitol Water's 0.25% revenue band, the Company will continue to recover this amount of expense in subsequent years when no application is filed with the Commission." Order No. 30881 at 2-3.

In Attachment A, line 14, of Staff's comments it is evident that the current change in power supply costs falls inside Capitol Water's 0.25% revenue band. In calculating the revenue band requirement, the Company used the total incremental power revenue included in current Capitol Water rates (Application, Exhibit No. 1, line 11), which does not include the rate filing costs. Staff observes that in previous cases, the Company's "Existing Expenses above Embedded Base Rates" (including both power supply and rate case costs) is compared with the "Revised Total Expenses above Embedded Base Expenses" (also including both power supply and rate case costs). See Staff Attachment A, lines 9 and 11. When this comparison is performed with the correct "Revised Total Expenses above Embedded Base Expenses," the percent increase in the Company's total revenue requirement is 0.245% ( $\$1,666$  incremental power cost/ $\$679,131$  current revenue x 100, see Attachment A). The 0.245% increase (even if rounded) falls inside the 0.25% band, or in other words, does not exceed the 0.25% threshold.

### ***Idaho Power Rate Adjustments***

When the Company filed its PPCA application in Case No. CAP-W-09-01, it asked the Commission to approve a new tariff schedule that would enable the Company to recover purchased power costs directly related to Idaho Power's PCAs. Staff interprets Commission Order No. 30881, specifically the directive to "file for an adjustment of its total revenue to recognize changes in power costs," to include changes in Idaho Power's PCA costs and all other miscellaneous Idaho Power rate changes. This requirement is also incorporated in prior Commission Orders addressing this issue. See Order Nos. 32858, 32607, 32325, and 32056.

In the current case, Capitol Water's requested rate adjustment includes Idaho Power rate increases due to the following:

- Updated base rates (IPC-E-13-20, Order No. 33000);
- Changes to the Fixed Cost Adjustment (FCA) rates (IPC-E-14-03, Order No. 33047); and

- Changes to the PCA rates (IPC-E-14-05, Order No. 33049).

### ***Commission-Approved Methodology in Calculating PPCA***

The methodology used to calculate the incremental power cost increase in Capitol Water's previous five PPCA cases starts with actual 2005 energy consumption and actual 2008 energy cost to determine an actual 2008 cost per kWh (\$0.0519 per kWh from Order No. 30762). A 2005 test year was used in Capitol Water's most recent general rate case in 2008. Because actual energy consumption in 2005 was determined to be significantly above normal (1,940,746 kWh), a three-year average was used to calculate normalized annual energy (1,454,401 kWh). Normalized, base rate power supply costs of \$75,483 were then determined by multiplying normalized energy and the average rate per kWh (1,454,401 x \$0.0519). The average cost per kWh for Capitol Water under Idaho Power's new rates was then calculated using the 2005 actual energy consumption model.

Using the same methodology as employed in the previous cases and applying the new Idaho Power rates effective June 1, 2014, the Company calculated the average rate of \$0.0715 per kWh. This is the restated average cost per kWh. With this adjusted rate, the expected power cost is \$103,937 (1,454,401 x \$0.0715). The power cost above what is embedded in rates due to Idaho Power's rate changes is \$28,454 (\$103,937 - \$75,483). Including the \$1,100 quoted by Capitol Water as Application processing costs, the overall expense comes to \$29,554 above base rates. The Company is currently collecting \$27,393 from the 4.20% PPCA approved last year in Order No. 32858. Because the Company uses \$26,293 as its base for 2013, the incremental revenue increase is \$3,261 (\$29,554 - \$26,293). If the 2013 base is revised to include the previously approved rate case costs, the Company's request is for an incremental revenue increase of \$2,161.

In reviewing the Company's input of current Idaho Power rates to the power cost model, Commission Staff discovered the following errors: (1) an incorrect power cost adjustment rate for Idaho Power Schedule 9S – Large General Service-Secondary; (2) an overestimate for the first 300 kWh for non-summer rates under Idaho Power Schedule 7; (3) an underestimate for the Energy Service rates under Idaho Power Schedule 91; and (4) an underestimate for the Franchise Fee rates under Idaho Power Schedule 95. Using the corrected values and formulas, Staff recalculated the average cost per kWh to be \$0.0711. See Staff's Attachment A for a comparison of calculations between the Company and Staff. Staff notes that these are the same

minor corrections proposed in the prior PPCA case, agreed to by the Company and accepted by the Commission. *See* Order 32858 at 2.

Based on an average cost per kWh of \$0.0711, Staff's revised expected power cost is \$103,442 ( $1,454,401 \times \$0.0711$ ) and the power cost above what is embedded in base rates is \$27,959 ( $\$103,442 - \$75,483$ ), or \$29,059 including rate case costs. The Company is currently collecting \$27,393 from the 4.20% PPCA (see Order No. 32858), for a Staff calculated incremental rate increase of \$1,666.

To recover the additional \$1,666, the PPCA would otherwise increase to 4.460%. This increase – which the Staff does not recommend – would be reflected in the Company's Schedule 3 (Other Recurring and Non-Recurring Charges) and result in an overall percent impact to annual non-metered customer bills of 0.245%. Metered commercial customers would experience the same incremental percentage increase, although the annual dollar impact will vary based on usage.

Staff also noted that the \$1,100 in consulting costs (10 hours at \$110/hr) to identify the level of rate change and create the Company filing would not have been incurred if the incremental increase had been properly calculated. Staff estimates that only 50% of the consultant costs (\$550) should have been incurred to identify the incremental increase. The resulting change in current rates would only be 0.164%. Consequently, if the Commission chooses to increase the PPCA, Staff believes it should only be increased to recover an additional \$1,116 ( $\$1,666 - \$550$ ) or 4.37%.

The Company included a customer notice with its monthly bills mailed on August 1, 2014, and a press release on July 11, 2014. Staff reviewed both documents and found two deficiencies. Rule 125 of the Commission's Rules of Procedure requires all utilities to inform customers that written comments regarding the application may be filed with the Commission, and that customers may subscribe to the Commission's RSS feed to receive periodic updates via e-mail about this case. See Rule 125.01.d and 125.04, IDAPA 31.01.01.125.01.d and -125.04.

The Rules of Procedure were revised recently, with changes becoming effective on February 15, 2014. Staff recommended the Company review the updated Rules of Procedure and include all required information in its customer notices and press releases in the future. The Commission has not received any comments from customers regarding Capitol Water's Application.

## **REPLY COMMENTS**

Capitol Water stated that it had numerous discussions with Staff subsequent to Staff filing its comments. According to the Company, both the Company and the Staff have erred in their calculations.

The confusion appears to be in the proper algebraic formulas used to prorate the Company's electric power bills that straddle the effective dates of Idaho Power Company's winter and summer rates. Staff and the Company have worked together to develop corrected formulas that are mutually agreeable.

Capitol Water attached Rebuttal Exhibit No. 2 that reflects the corrected results using the agreed to corrected formulas. As shown on line 14 of the exhibit, the percent increase in total revenue is 0.249% which is only 1/1000th of a percentage point less than the 0.25% revenue band previously established by the Commission.

The Company asks the Commission to consider the elimination of the revenue band test. The Company states that each year it must review all of Idaho Power Company's approved tariffs to determine rate changes and/or new tariff schedules that affect Capitol Water Company's bills and recalculate bills from the Company's 2008 test year. Elimination of the revenue band test will ensure that the Company recovers its increased costs if Idaho Power Company tariff changes increase the Company's electric power expenses and passes through to customers any benefit of an Idaho Power Company rate reduction.

Also attached to the reply comments, for the Commission's approval should it decide to eliminate the revenue band test, is a revised Capitol Water Company Tariff Schedule No. 3 that reflects the required Purchased Power Cost Adjustment of 4.460% developed on Rebuttal Exhibit No. 2 at line 10.

## **COMMISSION FINDINGS**

The Commission has thoroughly reviewed Capitol Water's Application, including attachments, Staff comments, and the Company's reply comments. The Commission finds that Capitol Water's request to increase its Schedule 3 surcharge by 0.249% represents a fair, just and reasonable increase to recover the increase in its annual power costs. The Commission acknowledges that Capitol Water's request falls within the previously established "0.25% revenue band in determining each year whether to file for a rate adjustment. . . ." See Order No. 30881 at 2.

The Commission finds that this 0.25% revenue band hurdle may no longer be needed, therefore, we discontinue it indefinitely. The Commission appreciates Staff's diligent work in analyzing the Company's Application and submitting its recommendations in accordance with the Commission's prior mandates. However, the Commission finds that Capitol Water has adequately demonstrated that it merits an increase to its Schedule 3 Purchased Power Rate in order to recover its annual power costs in as timely a manner as possible. The Commission also finds that discontinuing the 0.25% revenue band test will enable this small water system to remain financially solvent and healthy by permitting it to pass through all of its increased power costs directly to customers. We can consider re-establishing a revenue band test in the future, if necessary.

Therefore, based upon our review of the Company's filing and written comments filed by Staff and the Company, the Commission finds that it is fair, just and reasonable to authorize Capitol Water to adjust its Schedule No. 3 PPCA surcharge from 4.2% to 4.46%. The Commission also finds the Company's request to recover \$1,100 to employ a consultant to review the impact of contemporary Idaho Power rate increases, and embedded within the requested rate adjustment, to be reasonable. The Commission authorizes Capitol Water to recover a total incremental revenue requirement increase of \$29,061. The Company's revised Schedule 3 tariff sheet is approved.

### **CONCLUSIONS OF LAW**

The Commission has jurisdiction over Capitol Water, a water corporation operating a water system in the state of Idaho, and the issues presented in this case pursuant to Title 61 of the Idaho Code.

### **ORDER**

IT IS HEREBY ORDERED that Capitol Water Corporation's Application for an increase in its Schedule No. 3 Purchased Power Cost Adjustment rate is approved. The Schedule No. 3 Purchased Power Cost Adjustment rate shall be increased from 4.2% to 4.46%, a revenue requirement increase of \$27,961, in order to recover the Company's annual cost of electricity.

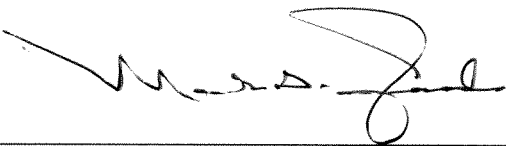
IT IS FURTHER ORDERED that Capitol Water Corporation's request to recover \$1,100 as a reasonable and necessary expense associated with the preparation and filing of the Company's Application, for a total incremental increase of \$29,061 to the Company's annual revenue requirement, is approved.

IT IS FURTHER ORDERED that the approved increase to Capitol Water Corporation's Schedule No. 3 Purchased Power Cost Adjustment rate shall be effective on September 15, 2014.

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 15<sup>th</sup> day of September 2014.

  
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PAUL KJELLANDER, PRESIDENT

  
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MACK A. REDFORD, COMMISSIONER

  
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MARSHA H. SMITH, COMMISSIONER

ATTEST:

  
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Barbara Barrows  
Assistant Commission Secretary

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