

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-08-01
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE)
DUE TO THE INCLUSION OF THE) ORDER NO. 30559
DANSKIN CT1 PLANT IN RATE BASE)**

On March 7, 2008, Idaho Power filed an Application to recover its actual and planned investment for a new gas-fired combustion turbine located at the Evander Andrews Power Complex in Mountain Home.¹ More specifically, the Company seeks to add to rate base \$64,981,978 attributable to the cost of constructing the generating facility and the necessary transmission and interconnection facilities. Using the Company's currently authorized 8.10% rate of return, Idaho Power calculates that it needs to increase its annual revenue requirement in Idaho by \$9,010,952. To recover the proposed revenue increase, the Company proposes that rates for all existing customer classes and its three special-contract customers be uniformly increased by 1.39%. The Company requests that the proposed increase to its base rates become effective June 1, 2008, which would coincide with the rate change resulting from the annual Power Cost Adjustment (PCA) mechanism.

BACKGROUND

In December 2006, the Commission issued Order No. 30201 granting Idaho Power's application for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate the new Danskin CT1. *Idaho Code* § 61-526; Case No. IPC-E-06-09.² Danskin CT1 is a 170 MW natural gas-fired, simple-cycle combustion turbine. The generating plant was constructed by Siemens Power Generation. Williams Northwest Pipeline will provide the natural

¹ The Company's newest combustion turbine was previously referred to as the "Evander Andrews Power Plant." In the present Application, the Company has renamed the power plant "Danskin Combustion Turbine No. 1" or "Danskin CT1." The two existing 45 MW gas-fired turbines at the same site are now referred to as "CT No. 2 and No. 3." Application at n.1. The Company has renamed the site of the three combustion turbines as the "Evander Andrews Power Complex." Application at 1. In addition to the three gas-fired turbines at the Evander Andrews Power Complex, the Company also has the Bennett Mountain (162 MW gas-fired, simple-cycle) power plant located in Mountain Home. Order No. 29410.

² The Commission issued Certificate No. 465 authorizing Idaho Power to construct the Danskin CT1 on December 15, 2006.

gas necessary to fuel the plant. Reasonable fuel costs for the Danskin CT1 plant are to be recovered through the PCA mechanism. *Id.*

In its Certificate application, Idaho Power provided the Commission with a “commitment estimate” of the project’s total capital cost. The commitment estimate for the plant was \$60 million. This included the firm bid price for the turbine (\$49,999,000) plus additional costs such as sales taxes, AFUDC,³ oversight and change orders. Order No. 30201 at 17. The commitment estimate did not include the cost of constructing or upgrading the transmission facilities necessary to connect the Danskin CT1 plant with the existing transmission system. *Id.* at 18. At the time, Idaho Power’s transmission group “provided a preliminary upper limit estimate of \$22.8 million” for the interconnection and/or transmission upgrades for the plant. Application at 5 (Case No. IPC-E-06-09). Subject to two exceptions,⁴ Idaho Power offered to absorb the capital costs that exceed the commitment estimate. Order No. 30201 at 12.

In Order No. 30201 the Commission found that in the ordinary course of events, Idaho Power may anticipate ratebasing \$49,999,000 (the amount of the turbine contract). The Commission specifically reserved its approval of recovering costs in excess of the contract price up to the commitment estimate of \$60 million “until after the project is constructed and an audit of such costs is completed.” *Id.* at 14. “Transmission costs to upgrade the system between Mountain Home and the Treasure Valley are subject to future review once the upgrade has been constructed.” *Id.* at 18. The Company was also ordered to provide the Commission with an updated report of the transmission costs.

THE PRESENT APPLICATION

A. Plant Costs

In the testimony that accompanies the Application, Company witness Michael Youngblood states that the Danskin CT1 plant will be in commercial operation on June 1, 2008. Prefile Testimony at 4, ll. 21-23. He explained that the change in rates attributable to the Danskin CT1 project will coincide with the Power Cost Adjustment (PCA) rate adjustment that normally occurs on June 1 of each year. *Id.* at 5-6.

³ “AFUDC” means Allowance for Funds Used During Construction. AFUDC is an accounting mechanism that recognizes the capital costs associated with financing construction projects. Order No. 29838 at 11.

⁴ The two exceptions were the costs of equipment to comply with new air quality requirements and escalations in assumed forecasts (such as inflation).

Mr. Youngblood stated that the total capital investment in Danskin CT1 plant is anticipated to be \$57,335,866 as of June 1, 2008. The Company also anticipates booking an additional \$314,995 “shortly after June 1, 2008. The total amount of \$57,650,861 (\$57,335,866 + \$314,995) is the basis for the Danskin CT1 power plant portion of the June 1 rate change that the Company is requesting in this proceeding.” *Id.* at 7. The \$57.65 million is comprised of the following elements:

	Actual Charges thru 1-1-08	Estimated Charges Feb.-June 2008	Estimated Charges thru 6/30/08
Turbine Contract	44,999,100	4,999,900	49,999,000
Change Orders	493,386	191,930	685,316
Sales Taxes	1,312,256	180,000	1,492,256
Engineering, Oversight & Support	1,130,549	325,000	1,455,549
Other Infrastructure	341,718	375,000	716,718
Test Fuel	1,049	398,951	400,000
AFUDC	2,267,022	635,000	2,902,022
TOTAL	50,545,080	7,105,781	57,650,861

Source: IPCo Exhibit No. 2.

The Company noted that the estimated charges of \$57.65 million are approximately \$2.35 million less than the \$60 million commitment estimate it provided in 2006.

B. Transmission Costs

As noted above, the Company initially estimated that the transmission and interconnection costs were approximately \$22.8 million. Because the Company’s initial transmission costs were based upon an estimate, the Commission ordered Idaho Power to provide detailed transmission information and costs. Order No. 30201 at 18. In compliance with that directive, the Company filed a “Facility Study Report” with the Commission on February 20, 2007. In the study, the Company estimated that the interconnection costs will be approximately \$775,000 (+/- 20%) and the transmission upgrade will cost \$22,392,414 (+/- 20%). The combined interconnection and transmission upgrade cost was reported to be \$23,167,415, or within a range of \$18.5 to \$27.8 million. Youngblood at 12.

The construction of the transmission system in this case includes four primary components: (1) a 230 kV transmission line connecting the Danskin complex and the Bennett Mountain plant; (2) the new Hubbard Substation; (3) a 230 kV transmission line between Danskin and the Hubbard Substation; and (4) the communications that tie all the pieces together.

Id. In this Application, the Company has included the costs of the Danskin-Bennett 230 kV transmission line (item No. 1 above) and the communications that tie the two plants together (item No. 4 above). The other two components (the Hubbard Substation and the 230 kV line between the Danskin complex and the Hubbard Station) “are scheduled to be placed into service in October 2008.” *Id.* at 14. These last two components have an estimated cost of \$19.5 million. The Company will seek to recover this amount in a subsequent application. *Id.* at 15.

Due to delays in construction, the Company seeks to recover only \$7,331,116 out of the \$26.83 million in projected transmission costs as part of this Application. Youngblood at 10. This amount is comprised of actual charges as of January 31, 2008, and estimated charges from February through June 1, 2008. As of January 31, 2008, the Company stated it has incurred work order charges of \$6,554,318 plus AFUDC of \$139,811. Exh. No. 3. The Company anticipates that between February and May 30, 2008 it will incur additional transmission charges totaling \$636,987 (\$621,853 + \$15,134 AFUDC). Mr. Youngblood explained that the delays were attributed to unanticipated appeals of a required conditional use permit and delays in the Bureau of Land Management permitting process. *Id.* at 13.

In summary, the Company requests authority to rate base \$64,981,978 (\$57,650,861 for the plant and \$7,331,116 for interconnection and transmission facilities). Application at 2.

C. Proposed Rates

Based upon its authorized rate of return of 8.10%, Idaho Power calculates that it is entitled to an additional annual revenue requirement of \$9,010,952. Application at 3. To recover this additional revenue, the Company proposes a uniform average percentage increase of 1.39% for all existing customer classes and its three special-contract customers (Micron, Simplot, INL). *Id.* The Company proposes that the increase in base rates become effective June 1, 2008, to coincide with the PCA rate change. Idaho Power states in its Application that it issued a media release and will notify its individual customers by bill inserts. *Id.* at 5.

PROCEDURE

The Commission issued a Notice of Application and Notice of Modified Procedure on March 18, 2008, including the Commission’s determination that a formal hearing may not be required in this case. The Notice instead established a period for written comments to be filed.

On March 21, 2008, Micron Technology, Inc. filed a Petition to Intervene, and it was granted by the Commission by Order No. 30522 issued April 4, 2008.

The written comment period concluded on May 13, 2008, and the Commission Staff was the only party to file comments.

WRITTEN COMMENTS

Staff audited the Danskin CT1 plant costs requested by the Company to be included in rate base. Of the total plant costs of \$57,650,861 requested by Idaho Power, Staff was able to audit the plant costs actually incurred through April 30, 2008 in the amount of \$56,440,768. Staff concluded by its audit that these costs are reasonable and prudent and recommended the Company be allowed to include them in rate base as requested.

Staff also reviewed estimated charges for the months of May and June 2008, including charges for change orders, additional sales taxes, additional engineering, oversight and support, and the final payment to Siemens Power Generation for the generating unit. The projected payment to Siemens is \$249,995, and is the last installment of the Company's payments to Siemens. Staff recommended the Commission approve inclusion of the \$249,995 payment to Siemens in rate base. Because Staff was not able to audit the other estimated costs projected for May and June, Staff recommended the remainder of these estimated costs, totaling \$422,228, not be included in rate base as part of the Application in this case.

Staff reviewed Idaho Power's costs for interconnection and transmission facilities associated with the generating plant. The Company requested a total of \$7,541,380 for interconnection and transmission facilities, and Staff reviewed actual costs incurred by the Company in the amount of \$7,190,817. Staff concluded these actual amounts are reasonable and prudent and should be included in rate base. Staff also reviewed the unclosed work orders (estimated to be \$200,000), representing a combination of actual materials used and actual labor performed and an estimate of materials and labor needed to complete the project, as well as a component for AFUDC in the amount of \$150,563. Staff concluded that these additional amounts are also reasonable for including in rate base because they will be paid and completed by the time rates including these costs become effective.

Staff reviewed the changes in the Company's net power supply costs as the result of adding the Danskin CT1 project to the Company's generation portfolio. Natural gas fuel costs for the Company will increase to run the plant, but surplus sales revenue also increases because the plant is able to generate power for sale when it is not needed to serve Idaho Power's own load. In addition, the Company's purchased power costs decrease because the plant will meet a

greater share of the Company's native load requirements. Staff concluded that the Company's calculations are accurate. On a total system basis, the Danskin CT1 reduces net power supply costs by \$2.6 million annually and \$2.48 million for the Idaho jurisdiction. On a normalized system basis, the Danskin CT1 project increases surplus sales by \$4.16 million, increases fuel expenses by \$7.91 million and decreases firm purchases by \$6.37 million.

Finally, Staff calculated the change in revenue requirement and rate increase resulting from including the Danskin project in Idaho Power's rate base. Idaho Power requested a total of \$64,981,977 for plant and transmission related costs for the Danskin CT1 plant be added to rate base. Staff recommended the Company be authorized to include \$64,232,145 for total system plant in service. Taking into account the increase in rate base, depreciation expenses, annual operation and maintenance costs, revenues from surplus sales, and state and federal taxes, Staff identified an annual revenue deficiency of \$8,894,974 for Idaho Power's Idaho jurisdiction resulting from the Danskin project. In order to recover this deficiency, Staff recommended a 1.37% increase in revenue requirement, slightly less than the Company's proposed 1.39% rate increase. Staff recommended approval of Idaho Power's proposal to spread the rate increase uniformly to all customer classes with no increase in customer or service charges.

DISCUSSION

When the Commission granted a Certificate of Public Convenience and Necessity for the Danskin CT1, we found "that the future public convenience and necessity requires construction of the [Danskin] Plant," and concluded that "in the ordinary course of events Idaho Power may recover the base price of the plant in the [contract] amount of \$49,999,000." Order No. 30201 at 17. The Commission also stated that "[a]dditional capital costs up to the Commitment Estimate of \$60 million and necessary transmission costs will be subject to further review in a subsequent case once the plant is constructed and the transmission system upgraded." *Id.* This case provided the ordinary course of events for Idaho Power to provide construction costs for the plant as well as for transmission upgrades for Staff to audit and verify as appropriate for inclusion in the Company's rate base.

The Company reported plant costs, actual and anticipated, as \$57.65 million, approximately \$2.35 million below the \$60 million commitment estimate presented in the 2006 CPCN case. Staff was able to audit contract costs, change order costs and other construction

costs incurred through April 2008 in the amount of \$56,440,768 and determined that these costs were reasonable and prudent to the project. Staff also recommended the final contract payment of \$249,995 to be paid to Siemens be allowed in rate base as part of the reasonable and verifiable plant construction costs. Staff was not able to verify \$422,228 in anticipated plant costs, however, because in the record in this case “there is no information or data to be audited to determine if these costs are reasonable and prudent.” Staff Comments at 6.

The Staff audit of the transmission and interconnection facilities costs presented by Idaho Power in the amount of \$7,541,380 demonstrated that these costs are reasonable and prudently incurred for the project. In a “Facility Study Report” filed with the Commission in February 2007, Idaho Power estimated the total transmission and interconnection costs related to Danskin CT1 would be approximately \$23 million. The facilities costs in this case do not include two significant components of the anticipated necessary transmission upgrades—a new substation called Hubbard Substation and a 230 kV transmission line between Danskin and the Hubbard Substation. These facilities are estimated to cost approximately \$19.5 million.

Based on the record in this case, we find that plant and transmission construction costs in the amount of \$64,232,145 have been audited, were reasonably and prudently incurred, and it is just and reasonable to add these costs to Idaho Power’s rate base. These costs include \$56,690,763 for the Danskin CT1 plant and \$7,541,380 for transmission and interconnection system upgrades. Idaho Power anticipates a subsequent case to include additional transmission upgrade costs in rate base when those facilities are completed. The Company must provide adequately detailed records to ensure that none of the transmission and interconnection costs approved in this case are included in any subsequent request for recovery of additional upgrade costs.

The Company’s costs for natural gas will increase to operate this plant, but surplus energy sales will also increase because the plant will generate power the Company can sell to other utilities. Staff reviewed the net power supply calculations reported by the Company and determined they are accurate. Along with the increase in rate base, depreciation expenses will increase, as will operation and maintenance costs. Revenues from surplus energy sales are expected to increase by approximately \$4.1 million per year. Staff Comments at 8.

The Commission finds that including Danskin CT1 construction costs and the transmission upgrade costs approved in this Order increases Idaho Power’s system total rate base

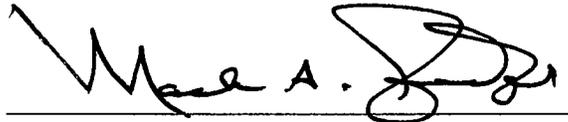
by \$63,421,180. Considering the total impact of the Danskin plant on Company operations, we find the costs approved in this Order result in an annual revenue deficiency of \$8,894,974 for the Company's Idaho jurisdiction. Accordingly, the Commission approves an overall increase of 1.37% in Idaho Power's base rates to recover the \$8,894,974 annual revenue deficiency. The proposed rates filed with the Company's Application are not approved, but Idaho Power is authorized to file new tariff sheets to increase its rates by 1.37% effective June 1, 2008 to recover \$8,894,974 in annual revenues for its Idaho service operations.

ORDER

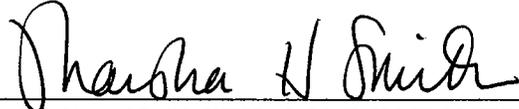
IT IS HEREBY ORDERED that Idaho Power is authorized to add \$56,690,763 for the Danskin CT1 plant and \$7,541,380 for transmission and interconnection system upgrades to the Company's rate base. Idaho Power is authorized to file new tariff sheets to increase its rates by 1.37% effective June 1, 2008 to recover \$8,894,974 in annual revenues for its Idaho service operations.

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 29th
day of May 2008.



MACK A. REDFORD, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



JIM D. KEMPTON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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