

## DECISION MEMORANDUM

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

**FROM:** DON HOWELL  
DEPUTY ATTORNEY GENERAL

**DATE:** MARCH 11, 2008

**SUBJECT:** IDAHO POWER'S APPLICATION TO RATE BASE THE NEW GAS-FIRED POWER PLANT IN MOUNTAIN HOME AND TO INCREASE ITS BASE RATES, CASE NO. IPC-E-08-01

On March 7, 2008, Idaho Power filed an Application to recover its actual and planned investment for the new gas-fired combustion turbine located at the Evander Andrews Power Complex in Mountain Home.<sup>1</sup> More specifically, the Company seeks to rate base \$64,981,978 attributable to the cost of constructing the generating facility and the necessary transmission and interconnection facilities. Based upon the 8.10% rate of return authorized last month in the Company's rate case, 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 caused by 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

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<sup>1</sup> 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 as "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.

the new Danskin CT1. *Idaho Code* § 61-526; Case No. IPC-E-06-09.<sup>2</sup> 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 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, which included the firm bid price for the turbine (\$49,999,000) plus additional costs such as sales taxes, AFUDC,<sup>3</sup> oversight, change orders, etc. 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 the 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,<sup>4</sup> 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 accompanied the Application, Company witness Michael Youngblood states that the Danskin CT1 plant will be in commercial operation on June 1, 2008.

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

<sup>3</sup> “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.

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

Profile 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.

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:

	<b>Actual Charges thru 1-1-08</b>	<b>Estimated Charges Feb.-June 2008</b>	<b>Estimated Charges thru 6/30/08</b>
Turbine Contract	44,999,100	49,999,900	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
<b>TOTAL</b>	<b>50,545,080</b>	<b>7,105,781</b>	<b>57,650,861</b>

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 would be approximately \$775,000 (+/- 20%) and the transmission upgrade would 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 ties 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 only seeks to recover \$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 estimates charges from February through June 1, 2008. As of January 31, 2008, the Company stated that 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 that 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 BLM 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 rate of return of 8.10% authorized in the recently settled rate case, 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 has issued a media release and will notify its individual customers by bill stuffers. *Id.* at 5. The Company requests that the Commission process this case via Modified Procedure with rates to become effective on June 1, 2008.

### **STAFF ANALYSIS**

In Order No. 30201 the Commission found that in the ordinary course of events Idaho Power can anticipate ratebasing \$49,999,000, which is the cost of the turbine contract. Staff

believes that the case may be properly processed under Modified Procedure. Although Staff intends to work expeditiously on this case, we are concerned about completing the case by the proposed effective date of June 1, 2008. Our concerns are based upon the complexity of the accounting issues, existing Staff assignments, and the scheduling of decision meetings.

**COMMISSION DECISION**

1. Does the Commission wish to process this Application via Modified Procedure or should this matter be set for hearing?
2. Because this matter involves a proposed increase to Idaho Power's base rates, does the Commission wish to schedule public workshops under Rule 125? If yes, does the Commission desire to combine the workshop(s) with other workshop(s) that may be set for other proposed rate increases of Idaho Power?
3. If the Commission desires to process this case under Modified Procedure, does it wish to establish an extended comment period at this time or do so later?
4. Anything else?



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