

WELDON B. STUTZMAN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0318
IDAHO BAR NO. 3283

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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)
IDAHO POWER COMPANY FOR AUTHORITY)
TO INCREASE ITS RATES AND CHARGES)
FOR ELECTRIC SERVICE DUE TO THE)
INCLUSION OF THE DANSKIN CT1 PLANT IN)
RATE BASE.)**

CASE NO. IPC-E-08-1

**COMMENTS OF THE
COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Weldon B. Stutzman, Deputy Attorney General, submits the following comments in response to Order No. 30514 issued on March 18, 2008.

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

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 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.

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 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,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.

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

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).

In Order No. 30201 the Commission found that in the ordinary course of events, Idaho Power may anticipate rate basing \$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, 11, 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:

	Actual Charges thru 1-31-08	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 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 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 has issued a media release and will notify its individual customers by bill inserts. *Id.* at 5.

STAFF ANALYSIS

Review of Plant Costs

Staff audited the Danskin CT1 (plant) costs requested by the Company as an addition to rate base. The Company's Application requests an increase of \$57,650,861 to rate base for the total cost of the plant. Included in the audited amount are costs actually incurred through April 30, 2008 and costs that are estimated to be incurred for the months of May 2008 and June 2008. The Company incurred actual costs through April 30, 2008 in the amount of \$56,440,768. These costs were audited and are reasonable and prudent. Staff recommends the Company be allowed to include these costs in rate base as requested.

The Company also asks for estimated charges for the months of May 2008 and June 2008. These charges include estimates for additional Change Orders, additional Sales Taxes, additional Engineering, Oversight, and Support, additional Other Infrastructure, and the final payment to Siemens under the terms of the construction contract. The final payment to Siemens will be \$249,995 and represents the payment that is due to Siemens upon final approval and acceptance by the Company. This payment is the final installment of the Company's payments to Siemens as established by the contract between the Company and Siemens. Staff has no reason to believe that the Company's final approval for the final installment payment on the plant will not be given. Therefore Staff believes this payment will be made.

The other estimated costs total \$422,228 as follows:

Siemens Change Orders	\$30,000
Sales Taxes	\$30,000
Engineering, Oversight and Support	\$71,090
Other Infrastructure	<u>\$291,138</u>
Total	\$422,228

The Company has not yet incurred any of these costs and the actual costs are undeterminable at this time. There is no indication of additional change orders forthcoming since the plant is complete. No specific purchases are needed that would justify sales taxes of \$30,000. The specific nature or activity for the engineering and oversight is not designated and the other infrastructure is not specifically identified. There is no information or data to be audited to determine if these costs are reasonable and prudent.

Therefore, it is Staff's position that the estimated costs for the months of May 2008 and June 2008, except for the final payment to Siemens, not be reflected in rates by the Commission at this time. Staff is not asking that any actual cost incurred by the Company for the plant during these months be disallowed, but only that the cost not be included in rate base as part of this case. The Company should be allowed to ask for any additional plant related cost that may be incurred after April 30, 2008 in any subsequent rate case.

Thus, it is Staff's recommendation that the Company be permitted to add to its rate base the amount of \$56,690,763. The additional \$422,228 of the Company's request should not be included as part of this case, but can be considered in a subsequent rate case when the actual activities or projects causing the costs can be audited for reasonableness and prudence.

Interconnection and Transmission Costs

The Company is requesting a total of \$7,541,380 for the interconnection and transmission facilities associated with this plant. Staff reviewed the actual costs incurred by the Company and found that the actual amount for the Work Orders totaled \$7,190,817. The Company is additionally requesting the costs represented by Work Orders that have not closed at this time in the amount of \$200,000. These Work Orders represent work and costs that will be closed by May 31, 2008. The balance of the Company's request is for AFUDC in the amount of \$150,563.

The costs incurred in the closed work orders appeared to be reasonable and prudent. The costs that have been or will be incurred by the Work Orders that have not yet closed should also be included in rate base. These costs represent specific projects and specific cost estimates that will be completed by May 31, 2008. Although the Work Orders have not closed, the charges on them are a combination of actual materials used and actual labor performed, and an estimate of materials and labor needed to complete the project. It is not unreasonable to include these unclosed Work Orders because they will close and be completed by the time any rates including these costs are effective. For any unclosed Work Orders the Commission allows into rate base, AFUDC should stop at the earlier of the in-service date for the individual work order items or the time the rates become effective.

The total costs for the interconnection and transmission facilities should be the total of the following:

Closed Work Orders	\$7,190,817
Unclosed Work Orders	\$ 200,000
AFUDC	<u>\$ 150,563</u>
Total	\$7,541,380

If the Company is allowed to include the total of \$7,541,380 in rate base, care should be exercised to insure that none of these costs are included in the total transmission project when the balance of the transmission project is completed.

Changes to Rate Base

The total cost the Company requests be added to rate base on a total system basis is \$64,981,977 (\$57,650,861.63 + \$7,331,116). Staff recommends the April plant balance of \$56,440,768 plus the final Siemens contract payment of \$249,995 and transmission expenditures of \$7,541,380 be added to rate base. The total plant-in-service increase Staff recommends the Company be allowed to add to its rate base at this time on a total system basis is \$64,232,145. The estimated plant costs for the months of May 2008 and June 2008 of \$422,228 may be reflected in the next rate case.

Changes in Net Power Supply Costs

One of the effects of adding the Danskin CT1 project to Idaho Power's generation portfolio is to change the Company's net power supply costs. With Danskin CT1, natural gas fuel costs

increase because of the fuel required to run the plant. Surplus sales revenue 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, purchased power costs decrease because the plant is able to meet a greater share of the Company's native load requirements. Finally, coal fuel costs decrease slightly due to modest reductions in thermal plant operating hours.

Staff carefully reviewed the Company's calculations of net power supply costs and accepts them as accurate. On a system basis, the Danskin CT1 reduces net power supply costs by \$2.60 million annually or \$2.48 million for the Idaho jurisdiction. On a normalized system basis, the addition of 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.

In Order No. 29790, the Commission order following Idaho Power's previous application to add the Bennett Mountain power plant to rate base, the Commission ordered that "future filings by the Company reflect the associated reduction in power supply costs in base rates." In accordance with that Order, Idaho Power has stated that its future Power Cost Adjustment (PCA) filings will incorporate the adjusted base as approved in this case.

Change in Revenue Requirement

The Total System and Idaho Revenue Requirement calculations as recommended by Staff are shown on Attachment A. Components of the revenue requirement on a total system basis that Staff's recommendation will change include plant in service, rate of return, depreciation expense, investment tax credit, deferred taxes and income taxes.

The Danskin CT1 project on a system basis, after Staff's adjustment, increases rate base by \$63,421,180 (Attachment A, page 2, line 43). However, along with the increase in rate base, depreciation expenses also increase by \$1,794,956 per year (Attachment A, page 2, line 50). In addition, annual operation and maintenance costs increase by \$1,672,717 (Attachment A, page 2, line 49) due primarily to increased purchases of natural gas needed to fuel the plant. Revenues from surplus sales increase by \$4,156,333 per year (Attachment A, page 2, line 47). Federal taxes are also higher because of the new plant, but state taxes decrease, primarily due to investment tax credits.

The annual revenue deficiency is \$8,894,974 for the Company's Idaho jurisdiction (\$9,430,862 on a system basis) as shown on Attachment A, page 1, line 29. In order to recover this deficiency, a 1.37 percent increase in revenue requirement is necessary, Attachment A, page 1, line 32.

Rate Spread


The increased system revenue requirement due to the Danskin CT1 project is \$9,430,862. Of this amount, \$8,894,974 is allocated to the Company's Idaho jurisdiction. This amount equates to a 1.37 percent overall increase. In revising each rate schedule, Idaho Power applied the increase to energy and demand charges only, not to any service or base charges. In Idaho Power's most recent rate case (IPC-E-07-08), as part of the settlement stipulation, the Company agreed not to increase service or base charges for Schedules 1 and 7. (Reference Stipulation p. 5). Therefore, in order to uphold this commitment in the Stipulation and to remain consistent with other customer classes, Idaho Power is not proposing to increase service or customer charges for any class.

Because no service or customer charges are being increased, energy and demand charges must be increased slightly more than 1.37 percent in order to have an overall revenue requirement increase of 1.37 percent. In addition, because energy and demand charges represent a differing percentage of each class's revenue requirement, the percentage increase in energy rates differs slightly among the various customer classes.

STAFF RECOMMENDATION

Staff recommends approval of the original contract cost, in addition to change order costs, other project construction costs and transmission costs through the end of April 2008. Staff also recommends inclusion of the final contract payment and the transmission work order costs. Staff does not recommend inclusion at this time of \$422,228 plant costs for May and June 2008 estimates because of Staff's inability to verify the cause and audit those costs. Recovery of those costs can be sought by Idaho Power in its next general rate case. Staff recommends approval of an annual increase in revenue requirement for the Company's Idaho jurisdiction of \$8,894,974, which translates into a 1.37 percent increase. Staff also recommends approval of the proposal by Idaho Power to spread the rate increase uniformly to all customer classes, with no increase in customer or service charges. Finally, Staff recommends that the Commission accept the Company's proposed adjustment to base power supply costs for future PCA filings.

Respectfully submitted this 13th day of May 2008.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Rick Sterling
Joe Leckie
Terri Carlock

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**IDAHO POWER COMPANY
 JURISDICTIONAL REVENUE REQUIREMENT
 FOR THE DANSKIN CT1 GENERATION UNIT AT THE EVANDER ANDREWS COMPLEX
 FOR THE 12-MONTHS ENDING DECEMBER 31, 2008**

-1 <u>DESCRIPTION</u>	<u>TOTAL</u> <u>SYSTEM</u>	<u>ALLOC</u> <u>SOURCE</u>	<u>IDAHO</u> <u>IPUC</u>
1 SUMMARY OF RESULTS			
2 <u>RATE OF RETURN UNDER PRESENT RATES</u>			
3 TOTAL COMBINED RATE BASE	63,421,180		59,639,350
4			
5 OPERATING REVENUES			
6 SYSTEM OPPORTUNITY SALES	4,156,333		3,935,970
7 TOTAL OPERATING REVENUES	4,156,333		3,935,970
8 OPERATING EXPENSES			
9 OPERATION & MAINTENANCE EXPENSES	1,672,717		1,584,363
10 DEPRECIATION EXPENSE	1,794,956		1,690,927
11 TAXES OTHER THAN INCOME	192,000		180,428
12 PROVISION FOR DEFERRED INCOME TAXES	810,965		784,172
13 INVESTMENT TAX CREDIT ADJUSTMENT	1,900,417		1,837,631
14 FEDERAL INCOME TAXES	375,982		363,560
15 STATE INCOME TAXES	(1,984,298)		(1,918,741)
16 TOTAL OPERATING EXPENSES	4,762,739		4,522,341
17 OPERATING INCOME	(606,406)		(586,371)
18 ADD: IERCO OPERATING INCOME			
19 CONSOLIDATED OPERATING INCOME	(606,406)		(586,371)
20 RATE OF RETURN UNDER PRESENT RATES	-0.96%		-0.98%
21			
22 <u>DEVELOPMENT OF REVENUE REQUIREMENTS</u>			
23 RATE OF RETURN	8.10%		8.10%
24			
25 RETURN	5,137,116		4,830,787
26 EARNINGS DEFICIENCY	5,743,521		5,417,158
27			
28 NET-TO-GROSS TAX MULTIPLIER	1.642		1.642
29 REVENUE DEFICIENCY	9,430,862		8,894,974
30			
31 FIRM JURISDICTIONAL REVENUES (IPC-E-07-08 Stip.)			649,946,926
32 PERCENT INCREASE REQUIRED			1.37%
33			
34 SALES AND WHEELING REVENUES REQUIRED			658,841,900

**IDAHO POWER COMPANY
 JURISDICTIONAL REVENUE REQUIREMENT
 FOR THE DANSKIN CT1 GENERATION UNIT AT THE EVANDER ANDREWS COMPLEX
 FOR THE 12-MONTHS ENDING DECEMBER 31, 2008**

-1	<u>TOTAL</u>	<u>ALLOC</u>	<u>IDAHO</u>
<u>DESCRIPTION</u>	<u>SYSTEM</u>	<u>SOURCE</u>	<u>IPUC</u>
35 SUMMARY OF RESULTS			
36 DEVELOPMENT OF RATE BASE COMPONENTS			
37 ELECTRIC PLANT IN SERVICE			
38 PRODUCTION PLANT	56,690,763		53,839,913
39 TRANSMISSION PLANT	6,747,214		5,820,158
40 DISTRIBUTION PLANT	794,168		730,632
41 TOTAL ELECTRIC PLANT IN SERVICE	64,232,145		60,390,703
42 LESS: ACCUM DEFERRED INCOME TAXES	810,965		751,353
43 TOTAL COMBINED RATE BASE	63,421,180		59,639,350
44			
45 DEVELOPMENT OF NET INCOME COMPONENTS			
46 OPERATING REVENUES			
47 SALES REVENUES	4,156,333		3,935,970
48 OPERATING EXPENSES			
49 OPERATION & MAINTENANCE EXPENSES	1,672,717		1,584,363
50 DEPRECIATION EXPENSE	1,794,956		1,690,927
51 TAXES OTHER THAN INCOME	192,000		180,428
52 PROVISION FOR DEFERRED INCOME TAXES	810,965		784,172
53 INVESTMENT TAX CREDIT ADJUSTMENT	1,900,417		1,837,631
54 FEDERAL INCOME TAXES	375,982		363,560
55 STATE INCOME TAXES	(1,984,298)		(1,918,741)
56 TOTAL OPERATING EXPENSES	4,762,739		4,522,341
57 OPERATING INCOME	(606,406)		(586,371)
58 ADD: IERCO OPERATING INCOME		E10	
59 CONSOLIDATED OPERATING INCOME	(606,406)		(586,371)
60			
61 <u>POWER SUPPLY COSTS:</u>			
62 ACCT. 447/SURPLUS SALES	4,156,333		3,935,970
63 ACCT. 501/FUEL-THERMAL PLANTS	(1,879)		(1,779)
64 ACCT. 547/FUEL-OTHER	7,916,038		7,496,341
65 ACCT. 555/NON-FIRM PURCHASES	(6,371,633)		(6,033,818)
66 TOTAL POWER SUPPLY COSTS	(2,613,807)		(2,475,227)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13TH DAY OF MAY 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-08-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DONOVAN E WALKER
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: dwalker@idahopower.com

MICHAEL J YOUNGBLOOD
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: myoungblood@idahopower.com

CONLEY E WARD
MICHAEL C CREAMER
GIVENS PURSLEY LLP
601 W BANNOCK ST
PO BOX 2720
BOISE ID 83701-2720
E-MAIL: cew@givenspursley.com

DENNIS E PESEAU Ph D
UTILITY RESOURCES INC
SUITE 250
1500 LIBERTY STREET SE
SALEM OR 97302
E-MAIL: dpeseau@excite.com



SECRETARY

CERTIFICATE OF SERVICE