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LISA D. NORDSTROM
Lead Counsel
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May 11, 2012

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-12-13
Revenue Sharing With Customers – Idaho Power's Reply Comments

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:csb
Enclosures

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Attorneys for Idaho Power Company

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO SHARE REVENUES WITH CUSTOMERS IN CONFORMANCE WITH ORDER NOS 30978 AND 32424	))))))	CASE NO. IPC-E-12-13 IDAHO POWER COMPANY'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to the Notice of Modified Procedure set forth in Order No. 32492 and Comments filed on May 4, 2012. The Company concurs with the Idaho Public Utilities Commission ("Commission") Staff's ("Staff") findings that the Idaho 2011 actual year-end return on equity ("ROE") determination was properly calculated and that the proposed rates should be approved as filed. The Company disagrees with the Idaho Irrigation Pumpers Association, Inc.'s ("IIPA") assertion that allocation factors from the jurisdictional separation study ("JSS") used to determine the revenue deficiency in the settlement stipulation approved in Case No. IPC-E-11-08 ("2011 General Rate Case") should have been used in the 2011 actual year-end ROE determination, and that the proposed revenue sharing amounts are consequently understated. First, applying normalized, rate case-adjusted allocation factors to actual results of operations is inappropriate and produces counterintuitive results. Second, the use of full-year 2010 Federal Energy Regulatory Commission ("FERC") Form 1 allocation factors applied to actual third quarter 2011 financial results is the most current and accurate way to determine the Idaho-specific actual year-end ROE. Third, it is inappropriate to use the revised JSS methodology filed by the Company in the 2011 General Rate Case to allocate actual year-end financial results in this proceeding because the 2011 General Rate Case factors reflect various rate case adjustments that would result in an improper allocation of actual financial results in the context of an actual year-end ROE determination.

I. PROCEDURAL BACKGROUND

On March 2, 2012, Idaho Power applied for authority to share revenues with customers based on year-end 2011 actual financial results. The Company's revenue sharing proposal has two components: (1) Power Cost Adjustment ("PCA") sharing, which reduces revenues recovered through PCA rates by $27,098,897, equating to a 3.25 percent rate reduction for all customer classes relative to current base revenues, or a 3.21 percent reduction relative to total billed revenues, and (2) pension balancing account sharing, which results in a $20,324,173 net reduction to the pension balancing account. Idaho Power proposes that the rate change take effect on June 1, 2012, to coincide with the effective date included in the 2012 PCA Application.

On May 4, 2012, Staff and IIPA filed Comments regarding Idaho Power's Application. In the paragraphs that follow, Idaho Power indicates its support of the findings and conclusions included in Staff's Comments and responds to proposed modifications to the Company's request included in the IIPA's Comments.

II. DISCUSSION

A. The Company's Proposed Jurisdictional Separation Percentages and Corresponding Allocation Factors Are Reasonable.

The Company agrees with Staff's findings that its jurisdictional separation percentages used to determine the 2011 Idaho jurisdictional ROE are consistent with the 2009 and 2010 year-end ROE determinations and that the Company properly used third quarter 2011 financial information and 2010 FERC Form 1 allocation factors. This JSS methodology has been consistently applied and has facilitated the determination of the Company's Idaho jurisdictional ROE based upon the most currently available actual financial information and associated allocation factors.

B. IIPA's Assertion That the Company Should Have Used the Allocation Factors in the JSS Resulting from the Settlement Stipulation in the 2011 General Rate Case to Calculate the 2011 Idaho ROE Is Inappropriate and Produces Counterintuitive Results.

The stipulation agreement approved in Order No. 30978 is based upon the premise that actual earnings can be bolstered by amortizing additional accumulated deferred investment tax credits ("ADITC") to reach a minimum Idaho ROE of 9.5 percent if the actual ROE falls below 9.5 percent on a year-end jurisdictional basis, while actual earnings in excess of a 10.5 percent ROE are to be shared with customers. Because actual earnings are the underlying driver of the mechanism allowed in the stipulation agreement, actual results of operation should appropriately be the basis for allocation, not hypothetical 2011 General Rate Case test year JSS allocations as suggested by IIPA.

The application of allocation factors from a rate case JSS which uses normalized and annualized inputs is not an appropriate method to allocate actual financial results in the year-end Idaho ROE determination. Order Nos. 30978 and 32424 approved a revenue sharing mechanism which relies upon the Company's actual year-end Idaho jurisdictional ROE, not a normalized ROE. There are stark differences between a JSS prepared for a rate case and one prepared based on actual financial results, such as the JSS prepared for the annual FERC Form 1 filing. In a rate case, adjustments are made to test year accounts and rate base to reflect known and measurable changes so that test year totals accurately reflect anticipated amounts for the future period when rates will be in effect. Adjustments to test year accounts generally fall into three categories: (1) normalizing adjustments made for unusual occurrences, like one-time events or abnormal weather conditions; (2) annualizing adjustments made for events that occurred at some point in the test year to reflect a test year amount that would have been realized had it been in existence during the entire year; and (3) known and measurable adjustments made to include events that occur outside the test year but will continue in the future to affect Company income and expenses.

Based on the adjustments made to reflect test year operating conditions, it is inappropriate to use rate case-adjusted allocation factors to allocate actual historical unadjusted results of operations. First, it is not appropriate to make an adjustment to allocation factors to remove one-time events, as evidenced by the impact on actual earnings of such an event that occurred in the 2011 fiscal year. During this time period, actual earned ROE above 10.5 percent was the direct result of a one-time event, the change in tax methodology related to Uniform Capitalization ("UNICAP"), which is not recognized under IIPA's proposed allocation. Second, it is not appropriate to adjust allocation factors to reflect annualized plant. Actual earnings result from actual plant in service throughout the year, and to allocate actual year-end plant balances with annualized and adjusted plant levels distorts actual year-end jurisdictional earnings. Lastly, it is not appropriate to adjust allocation factors for known and measureable events outside the year being evaluated. These events do not occur within the applicable time period, and should therefore have no impact on the allocation of financial results. Applying allocation factors prepared for a rate case test year to actual unadjusted financial figures inappropriately impacts the jurisdictional separation of year-end financial information and produces results that are counterintuitive.

This point is most simply illustrated by comparing the Idaho jurisdictional earnings above a 10.5 percent ROE derived under IIPA's proposal to the Company's actual "Total System" earnings above a 10.5 percent ROE. IIPA presents a summary of its recommended study results in Attachment A to its Comments. Line 61 of this attachment presents the Idaho jurisdictional earnings above a 10.5 percent ROE of approximately $39.8 million that resulted from applying IIPA's proposed JSS methodology. The IIPA-derived earnings amount is approximately $5.7 million greater than the Company's actual "Total System" earnings above a 10.5 percent ROE of $34.1 million. For this relationship to be possible, the Company must have earned an actual year-end 2011 ROE well below 10.5 percent in its Oregon jurisdiction. However, this is not the case, as evidenced by the Company's 2011 Year-End Report to the Oregon Public Utility Commission ("2011 Oregon Results of Operations Report"). As displayed on page 31 of this report, provided as Attachment No. 1 to these Reply Comments, the Company calculates that it achieved a 2011 ROE of over 10.5 percent in its Oregon jurisdiction based on <u>actual</u> 2011 year-end financial information utilizing the methodology prescribed by the state of Oregon.

The flaws in the methodology suggested by IIPA are exemplified in many categories of the JSS, but nowhere are these flaws more prevalent than in the allocation of federal tax expense. As stated above, the Company received approval in 2011 from the Joint Committee on Taxation of its UNICAP method agreement with the Internal

Revenue Service, which allowed for recognition in the 2011 fiscal year of $56.9 million of previously unrecognized tax benefits for tax years 2009 and prior. This one-time tax benefit was recognized in the results of the third quarter 2011 JSS, which was the basis for the allocation factors in the Idaho ROE calculation, but it was not included in the 2011 General Rate Case JSS as it is not indicative of "normal" ongoing operations. The Idaho jurisdictional allocation of federal tax expense based on the third quarter 2011 JSS is 92.5 percent compared to an Idaho jurisdictional allocation factor for total federal tax expense in the 2011 General Rate Case JSS of 105.5 percent. The UNICAP tax benefit is a plant-based adjustment, properly allocated using the Company's plant allocator in the third quarter 2011 JSS. Based on this allocation factor, the Idaho jurisdiction received 92.86 percent of the system UNICAP benefit. However, IIPA suggests that the Idaho federal tax expense ratio from the 2011 General Rate Case of 105.5 percent be used to allocate 105.5 percent of the actual 2011 federal tax benefit to Idaho in the ROE determination. Because the primary driver of the actual tax benefit in 2011 was the plant-driven UNICAP benefit, the IIPA's proposed methodology assumes that the Idaho jurisdictional plant in service is more than 100 percent of the system total. Likewise, this proposed allocation suggests that Idaho customers receive an earnings benefit greater than the UNICAP benefit received by the Company as a whole. This is not logical or reasonable, and overstates year-end <u>actual</u> 2011 earnings for the Idaho jurisdiction. Idaho jurisdictional customers are not entitled to greater benefits than actually occurred.

There are a myriad of additional examples as to why the JSS prepared for a general rate case differs from a JSS based on actual results, and why applying normalized rate case-adjusted allocation factors unduly skews resulting jurisdictional financial results. For example, in the 2011 General Rate Case, in Table 7 of the JSS, "Taxes Other than Income Taxes," property taxes were forecast based on the test year plant in service and hydro kilowatt-hour taxes were forecast based upon normalized hydro conditions and normalized consumption. Once again, under the IIPA's proposal, these actual expenses would not be allocated on the basis of the actual usage and property levels that drove the expenses during the applicable earnings time frame, but rather on the basis of 2011 General Rate Case-specific numbers reflecting normalized forecast amounts. Such examples demonstrate that it is inappropriate to use normalized, annualized, out-of-period known and measurable data to establish allocation factors for actual data to allocate actual results of operation.

C. Applying Allocation Percentages Based Upon Actual Third Quarter 2011 Results Is the Most Current and Most Accurate Way to Calculate Actual Year-End ROE.

IIPA contends that allocation factors based upon actual results for nine months are incomplete and proposes that the Commission use the allocation factors from the 2011 General Rate Case. With the understanding that applying a rate case JSS methodology to actual year-end financial results would inappropriately impact the jurisdictional separation of year-end financial information and produce counterintuitive results, the Company developed a JSS methodology that appropriately applies the most currently available actual financial information and associated allocation factors to determine the Idaho jurisdictional ROE. The Commission-accepted methodology used by Idaho Power to calculate the actual Idaho year-end ROE balances the need for updated financial information with the timing of the year-end closing process. Idaho Power calculates the Idaho ROE determination on the 8th working day following the end of the fiscal year to enable any ADITC or revenue sharing entry to be recorded in the appropriate fiscal year's financial statements. As detailed in the Company's response to IIPA's Data Request No. 4, "FERC Form 1 allocation factors are not finalized until approximately April 1 of the following year." Due to the unavailability of data and the impact of the revenue sharing mechanism on financial reporting, the development of Idaho-specific allocation percentages based on actual year-end financial information from the current year is not feasible. Therefore, the use of full-year allocation factors from the JSS prepared for the 2010 FERC Form 1 filing applied to third quarter 2011 actual financial results captures the most current allocation factors reflective of actual operating results at the time of filing. The Company's methodology not only provides transparency but also demonstrates a balance between the need for up-to-date financial information and the Company's year-end closing process.

D. It Is Inappropriate to Use the JSS Methodology Applied In the 2011 General Rate Case Reflecting Normalized, Rate Case-Adjusted Results to Determine Actual Year-End Jurisdictional Earnings.

IIPA asserts that "The JSS as used previously has not been appropriate since Case No. IPC-E-11-08." IIPA Comments at 2. The Company believes that IIPA is referencing the change requested in the 2011 General Rate Case methodology to remove the FERC jurisdiction from the JSS. As described in its Comments, IIPA contends that the JSS used to determine the settled Idaho jurisdictional revenue deficiency in the 2011 General Rate Case should be used in the 2011 ROE determination. While the Company prefers the methodology proposed in the 2011 General Rate Case which removes the FERC jurisdiction from the JSS, it would only be appropriate in the context of an actual year-end ROE determination if it were applied using actual financial results and associated allocation factors, not the 2011 General Rate Case test year values suggested by IIPA. As previously stated, this type of study, as was applied in the preparation of the 2011 FERC Form 1 JSS, was not completed until April 1, 2012, and therefore would not have been available to calculate the 2011 Idaho jurisdictional ROE in January prior to the closing of the Company's 2011 books.

For this reason, the Company utilized third quarter 2011 actual financial information and the prior year's FERC Form 1 JSS allocation factors to determine the 2011 Idaho jurisdictional ROE in this proceeding, consistent with the Commission-accepted methodology applied in the 2009 and 2010 ROE determinations. However, had the 2011 FERC Form 1 JSS allocation factors been available at the time of filing, it would have resulted in less revenue sharing for Idaho customers than proposed by the Company in this case.

III. CONCLUSION

The Company, with concurrence from the Commission Staff, concludes that the Idaho ROE determination was calculated correctly and that its customers should receive the benefits as filed. As set forward in its previously filed Application and testimony, Idaho Power respectfully requests the Commission issue its Order approving the Company's determination of 2011 revenue sharing amounts, which results in an overall 3.21 percent decrease to current billed revenues to be effective June 1, 2012, and resulted in a separate reduction to the Company's pension balancing account effective as of December 31, 2011.

DATED at Boise, Idaho, this 11th day of May 2012.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 11th day of May 2012 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff Donald L. Howell, II Karl T. Klein Deputy Attorneys General Idaho Public Utilities Commission 472 West Washington (83702) P.O. Box 83720 Boise, Idaho 83720-0074	____Hand Delivered ____U.S. Mail ____Overnight Mail ____FAX _X_ Email don.howell@puc.idaho.gov karl.klein@puc.idaho.gov
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Christa Bearry
Christa Bearry, Legal Assistant

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-12-13

IDAHO POWER COMPANY

ATTACHMENT NO. 1

IDAHO POWER COMPANY
STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

OPUC JURISDICTION

DESCRIPTION	ACTUAL ALLOCATION	TYPE I ADJUSTMENTS	ADJUSTED TOTAL - TYPE I	TYPE II ADJUSTMENTS	ADJUSTED TOTAL - TYPE I & II
OPERATING REVENUES					
Retail Sales Revenues	42,466,390	0	42,466,390	(2,920,988)	39,545,402
Sales for Resale	86,586	0	86,586	(86,586)	0
Opportunity Sales	4,582,339	0	4,582,339	(2,235,665)	2,346,674
Other Operating Revenues	4,688,314	(2,515,131)	2,173,183	18,180	2,191,362
Total Operating Revenue	51,823,629	(2,515,131)	49,308,498	(5,225,059)	44,083,439
OPERATING EXPENSES					
Operation & Maintenance Expense	35,658,483	(4,120,710)	31,537,773	(1,553,683)	29,984,090
Depreciation Expense	4,689,777	0	4,689,777	125,052	4,814,829
Amortization Expense	273,660	17,165	290,825	22,518	313,343
Taxes Other Than Income Taxes	1,959,217	(0)	1,959,217	(66,904)	1,892,313
Regulatory Debits/Credits	28,099	0	28,099	0	28,099
Provision for Deferred Income Taxes	305,867	1,558,703	1,864,570	(13,720)	1,850,850
Investment Tax Credit Adjustment	(48,620)	0	(48,620)	(411)	(49,031)
Federal Income Tax	(3,448,452)	3,514,916	66,463	(1,124,696)	(1,058,233)
State Income Taxes	(74,468)	229,312	154,844	(225,422)	(70,578)
Total Operating Expenses	39,343,562	1,199,385	40,542,947	(2,837,266)	37,705,681
OPERATING NET INCOME	12,480,067	(3,714,516)	8,765,551	(2,387,793)	6,377,758
Add: IERCO Operating Income	275,650	0	275,650	3,007	278,657
CONSOLIDATED OPERATING INCOME	12,755,717	(3,714,516)	9,041,201	(2,384,786)	6,656,415
RATE OF RETURN EARNED	11.892%		8.488%		6.204%
IMPLIED RETURN ON EQUITY	17.833%		11.157%		6.677%

COST OF CAPITAL - DEC 31, 2011	ACTUAL STRUCTURE	EMBEDDED COST	WEIGHTED COST
Long Term Debt	49.017%	5.712%	2.800%
Preferred Stock	0.000%	0.000%	0.000%
Common Equity	50.983%	10.175%	5.187%
Total	100.000%		7.988%