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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** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's March 2, 2012 Application for authority to share revenues with customers based on year-end 2011 financial results.

BACKGROUND

On March 2, 2012, Idaho Power applied for authority to share revenues with customers based on year-end 2011 financial results. The Company's rate-sharing proposal has two components: (1) Power Cost Adjustment (PCA) Sharing, which reduces net rates by $27,098,897 and reduces rates for all customer classes by 3.25% relative to current base revenues, or by 3.21% in total billed revenues; and (2) "Pension Balancing Account Sharing," which results in a $20,324,173 net reduction to the pension balancing account. Application at 4 and 6. The Company proposes that the rate changes take effect on June 1, 2012, to coincide with the effective date to be reflected in the 2012 PCA application.

In 2010 and 2011, the Commission approved settlement stipulations between Idaho Power, Commission Staff, and other parties that require Idaho Power to share certain revenues with customers. *See* Order Nos. 30978 and 32424. The first Order requires the Company to provide customers with 50% of any earnings above a 10.5% year-end return on equity (ROE). The second Order requires the Company to provide an additional customer benefit; specifically, the Company must book 75% of its share of its Idaho jurisdictional 2011 year-end ROE above 10.5% as an offset against amounts in the Company's pension balancing account that otherwise would be collected in rates. With this Application, the Company seeks to share revenues as required by these Orders. Application at 1-3.

According to the Application, the Company calculates its year-end 2011 Idaho jurisdictional ROE to be 12.55%. *Id.* at 3. The Company states the amount above 10.5% equals $33,007,182. *Id.* at 4. The Company proposes to share this amount with customers in two ways.

First, as required by Order No. 30978, the Company proposes to allocate 50% of this amount to customer classes in proportion to class revenues. After tax gross-up, this 50% amount results in customers receiving a total, $27,098,897 rate reduction. *Id.* at 4. For the Company's four special contract customers (Micron, Simplot, Department of Energy (INL), and Hoku Materials), the Company proposes to provide a flat, dollar-per-month credit on billed invoices for the usage months of June 2012 through May 2013. *Id.* at 5-6. For all other rate classes, the Company proposes to include allocated revenue-sharing benefits in terms of a ¢/kWh rate reduction as part of the 2012 PCA filing. *Id.* at 5.

Second, as required by Order No. 32424, the Company proposes to provide customers with 75% of its remaining 50% share by reducing the Company's pension balancing account by that amount. After tax gross-up, this amount is $20,324,173. The Company proposes to apply this $20 million to the pension balancing account to offset expenses that would otherwise be collected through rates. *Id.* at 6.

The Company's news release and customer notice state the Company's proposal will decrease average billed rates by 3.21%, with the revenue impact by class being: Residential, (3.17%); Small General Service, (3.16%); Large General Service, (3.25%); Large Power, (3.26%); and Irrigation, (3.25%). *See* News Release at 3-4; Customer Notice at 1-2.

The Company notes that it has filed the proposed revenue-sharing amounts as an exhibit in this case. The Company filed its 2012 PCA application on April 13, 2012 including a new electric rate schedule containing the revenue-sharing amounts. Application at 7. The Company also stated it will make an appropriate compliance filing when final orders are received on all proposals to change rates effective June 1, 2012. *Id.*

STAFF ANALYSIS

Staff analyzed the reasonableness of this Application using three steps. First, Staff verified that the Company's net income is $193,632,649 on a System basis, that the Idaho jurisdictional share is $180,499,658 for 2011, and that the sharing amount over the 10.5% ROE is $33,007,182 for the Idaho jurisdiction. Second, Staff calculated the proper amount to be returned to customers in conformance with Order Nos. 30978 and 32424. Third, Staff determined that the Company properly allocated the amount to be returned to each customer class and that rates designed to refund those amounts are accurate.

System Net Income, Idaho Jurisdictional Share, and Amount Above 10.5% ROE

Staff verified net income for the Idaho jurisdiction by analyzing both the System (Total Company) net income and the jurisdictional separation study. The 2011 IDACORP 10-K and the Company books and records were utilized to verify net income. The 2011 IDACORP 10-K, page 30 shows $167 million in net income. This figure included an adjustment lowering revenues by $27 million as a provision for the revenue sharing amount (2011 IDACORP 10-K, page 8). Therefore, net income prior to the revenue sharing adjustment is $194 million, which is consistent with the $193,632,649 amount shown on Matthew Larkin's Exhibit No. 1, line 39. Staff also analyzed the revenue and expense accounts and confirmed the net income amount on a Company system basis. There were only two adjustments; both reverse the revenue sharing postings booked at year-end in conformance with the plan. Staff agrees with the $193,632,649 net income figure.

The jurisdictional separation percentage factors shown on Larkin Exhibit No. 1 (column titled "Idaho%") were developed consistent with 2009 and 2010 year-end ROE determinations. For this case, the third quarter financial information as of September 30, 2011 and the 2010 Federal Energy Regulatory Commission Form 1 allocation factors are used to develop the jurisdictional factors. Staff confirmed the calculations and information included on Exhibit No. 1. Using these allocation factors, Staff agrees that $33,007,182 is the amount that exceeds the 10.5% ROE shown on Exhibit No. 1, line 61.

Amount Returned to Customers

The sharing amounts shown on Exhibit No. 1, lines 63–67 are consistent with Order Nos. 30978 and 32424. Order No. 30978, page 2 states "...the Company will share 50% of any profits in excess of a 10.5% return on equity with customers." Further, "[t]he company will set aside 75% of its share of the 2011 year-end ROE in excess of 10.5% as a customer benefit in the form of an offset in the pension balancing account." Order No. 32424, p. 3.

Staff has confirmed Idaho Power's calculations and agrees that the Company should share $16,503,591 as a direct decrease to customer rates, and that the Company should offset $12,377,693 against the pension balancing account. When these amounts are grossed up for the taxes they become $27,098,897 and $20,324,173, respectively.

Revenue Allocation and Rate Design

Idaho Power used updated forecasted billing determinants for the period from June 1, 2012 through May 31, 2013 for the purposes of revenue allocation and rate design. These billing determinants are the most current information available for revenue allocation/rate design; however, they have not been thoroughly reviewed in a general rate case and approved by the Commission. Staff nevertheless accepts and recommends the use of the Company's proposed billing determinants here, just as Staff has done in the Company's other cases asking for rates with a June 1, 2012 effective date.

The Company proposes to allocate the $27,098,897 revenue sharing benefit to customer classes "based on each class's proportional share of forecasted base revenues for the June 1, 2012, through May 31, 2013, sharing period". For tariff customers, the Company further proposes that energy rates be decreased by a uniform ¢/kWh amount within each class. This methodology produces a different ¢/kWh rate for each class but the same average class decrease of 3.25%. For special contract customers, the Company proposes to return the allocated credits as 1/12 the annual total credit each month for twelve months. The Company shows the rate and annual credit calculations on Matthew Larkin's Exhibit No. 2. The uniform percent decrease of 3.25% of base revenue is an average 3.21% decrease in billed revenue. Staff has verified that the Company's calculations are correct and recommends that the Commission approve these rates and amounts.

STAFF RECOMMENDATION

Staff recommends $27,098,897 in revenue sharing benefit be returned to customers.

Staff also recommends approval of the tariff rates and special contract amounts contained in Company Exhibit No. 2. Staff further recommends that these rates and amounts be included in Schedule 55 along with PCA rates and made effective when PCA rates are made effective in Case

No. IPC-E-12-17. In both the Revenue Sharing case and the PCA case, the Company is requesting a June 1, 2012 effective date.

Lastly, Staff recommends approval of a reduction to the Pension Balancing Account of $20,324,173 for grossed up revenue sharing. The Company booked this amount to the Pension Balancing account on December 31, 2011.

Respectfully submitted this 4th day of May 2012.

Karl T. Klein
Deputy Attorney General

Technical Staff: Terri Carlock
Joseph Terry
Keith Hessing

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4TH DAY OF MAY 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-12-13, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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