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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
CAPITOL WATER CORPORATION FOR ) CASE NO. CAP-W-12-01  
AUTHORITY TO INCREASE ITS SCHEDULE )  
NO. 3 PURCHASE POWER ADJUSTMENT ) COMMENTS OF THE  
RATE. ) COMMISSION STAFF  
\_\_\_\_\_ )**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Neil Price, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure issued on July 10, 2012 in Order No. 32589, submits the following comments.

**BACKGROUND**

On June 15, 2012, Capitol Water Corporation (“Capitol Water” or “Company”) filed an Application to increase the Purchased Power Cost Adjustment (PPCA) portion of its Schedule 3, Other Recurring and Non-Recurring Charges. Capitol Water seeks to increase its PPCA rate from 0.37% to 1.71% with an effective date of August 1, 2012.

Capitol Water asks to increase its PPCA rate for several reasons. First, the Company now pays more for power than it did when its base rates were established. The Commission approved Capitol Water’s current base rates in 2008 in Order No. 30762, which authorized an average cost

of 5.19¢ per kWh based on a three-year average of 1,454,401 kWh for electricity consumption. Thus, Capitol Water's total electric power cost included in base rates was \$75,483 (i.e., 5.19¢ per kWh x 1,454,401 kWh x \$1.00/100¢). According to Capitol Water's Application, recent Commission-approved changes to Idaho Power's rates have affected the amount Capitol Water pays to Idaho Power for electric service.<sup>1</sup> Capitol Water states that its average cost per kWh using current Idaho Power rates<sup>2</sup> increases the average power cost to the Company to 5.58¢ per kWh. This correspondingly increases Capitol Water's total annual electric power cost to \$81,136, an increase of \$5,653 or 7.49% more than is currently included in the Company's base water rates. Application at 2.

Second, the Company proposes in its Application to incorporate the estimated rate effect of the Idaho Power's pending Langley Gulch power plant case.<sup>3</sup> The Company proposes to include the Commission Staff proposed increase for Idaho Power Company of 7.05% to all customer classes. When the estimated rate effect of the Langley power plant is included, the Company's average power cost increases from \$75,483 to \$85,418, an increase in annual electric power cost of \$9,934 or 13.16% more than is currently included in the Applicant's base water rates. Application at 2.

Third, the Company states that its new PPCA should include \$1,200 to offset the Company's costs to review the recent Idaho Power cases, determine their effect on Capitol Water, prepare and file the Application, and respond to any questions about the Application.

## STAFF ANALYSIS

Capitol Water requests an increase in the PPCA rate that the Commission most recently approved in Order No. 32325 (Case No. CAP-W-11-01). The Company states that the proposed increase will allow it to recover its increased purchased power costs arising from recently approved changes to Idaho Power's electric rate schedules. The Company calculates the PPCA

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<sup>1</sup> Capitol Water refers to Idaho Power's Commission-approved rate changes from Order Nos. 32540 (Case No. IPC-E-12-06), 32541 (Case No. IPC-E-12-07), 32559 (Case No. IPC-E-12-08), 32549 (Case No. IPC-E-12-09), 32544 (Case No. IPC-E-12-12), 32258 (Case No. IPC-E-12-13), and 32552 (Case No. IPC-E-12-17).

<sup>2</sup> Capitol Water refers to the current Idaho Power rates in effect on June 1, 2012.

<sup>3</sup> Capitol Water refers to Case No. IPC-E-12-14 (Application to Increase Rates Due to Inclusion of Langley Gulch Power Plant) which was recently concluded with Commission Order No. 32585 approving an average rate increase of 6.83% for all customer classes.

using the same methodology as used in previous PPCA rate adjustments (i.e., Order No. 30881, Case No. CAP-W-09-01; Order No. 32056, Case No. CAP-W-10-01; and Order No. 32325, CAP-W-11-01).

As discussed below, Staff agrees that the PPCA rate change is appropriate. Staff also agrees with the Company in using the same methodology to calculate the new PPCA rate. However, Staff proposes minor changes in the PPCA calculations as discussed below.

### **Revenue Band**

In 2009 Capitol Water filed a case (Case No. CAP-W-09-01) to initially establish a tariff to recover its cost of electricity related to the increase in Idaho Power Company's Schedule 55, Power Cost Adjustment. In the 2009 case, Order No. 30881, the Commission ordered Capitol Water to "utilize a 0.25% revenue band in determining each year whether to file for an adjustment of its total revenue to recognize changes in power costs." When Staff reviewed the Company's current Application, Staff calculated a slightly different incremental power cost amount than that calculated by the Company. Staff nevertheless agrees that the change in power supply costs meets the requirement for filing an adjustment under the revenue band. The difference is discussed in greater detail on page 6, below.

### **Idaho Power Rate Adjustments**

Staff notes that when the Company filed Case No. CAP-W-09-01, Capitol Water sought approval from the Commission to establish a new tariff rate to recover purchased power costs directly related to Idaho Power's Power Cost Adjustment (PCA) (Case No. IPC-E-09-11). Staff interprets Commission Order No. 30881, specifically the directive to "file for an adjustment of its total revenue to recognize changes in power costs," to include changes in Idaho Power's PCA costs and all other miscellaneous Idaho Power rate changes. This interpretation is also incorporated in Commission decisions in Order Nos. 32056 and 32325.<sup>4</sup> In the current case, the rate adjustment includes the Idaho Power rate increase due to the following:

- Increased rates due to inclusion of transmission costs (IPC-E-12-06, Order No. 32540)
- Decreased base rates due to removal of depreciation of non-AMI equipment (IPC-E-12-07, Order No. 32541)

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<sup>4</sup> Case Nos. CAP-W-10-01 and CAP-W-11-01, respectively.

- Decreased rates due to revised depreciation rates for electric plant in service (IPC-E-12-08, Order No. 32559)
- Increased rates due to the Boardman Balancing Account (IPC-E-12-09, Order No. 32549)
- Changes to the Fixed Cost Adjustment (FCA) rates (IPC-E-12-12, Order No. 32544)
- Decreased rates due to customer revenue sharing in conformance with Order Nos. 30978 & 32424 (IPC-E-12-13, Order No. 32258)
- Changes to the Power Cost Adjustment (PCA) rates (IPC-E-12-17, Order No. 32552), and
- Rate increase due to inclusion of the Langley Gulch Power Plant (IPC-E-12-14, Order No. 32585).

### **Commission Approved Methodology in Calculating PPCA**

The methodology used to calculate the incremental power cost increase in Capitol Water's previous three PPCA cases (i.e., Order No. 30881, Case No. CAP-W-09-01; Order No. 32056, Case No. CAP-W-10-01; and Order No. 32325, CAP-W-11-01) started with actual 2005 energy consumption and actual 2008 energy cost to determine an actual 2008 cost per kWh (\$0.0519 per kWh from Order No. 30762). A test year of 2005 was used in Capitol Water's most recent general rate case. Because actual energy consumption in 2005 was determined to be significantly above normal (1,940,746 kWh), a three year average was used to calculate normalized annual energy (1,454,401 kWh). Normalized, base rate power supply costs of \$75,483 were then determined by multiplying normalized energy and the average rate per kWh (1,454,401 X \$0.0519).

The average cost per kWh for Capitol Water under Idaho Power's new rates was then calculated by using the 2005 actual energy consumption model. The average rate in 2009, 2010, and 2011 was calculated to be \$0.0580 per kWh, \$0.0552 per kWh, and \$0.052891 per kWh, respectively. These rates were then multiplied by the normalized energy (1,454,401 kWh) to determine the expected annual power cost each year. The difference between the expected power cost under new rates and power costs already collected through base rates (\$75,483) was collected from customers through Schedule 3.

Using the same methodology used in the previous cases, and applying the new Idaho Power rates effective June 1, 2012, the Company calculated the average rate of \$0.05578 per kWh. This is the restated average cost per kWh. With this new rate, the expected power cost is

\$81,136 (1,454,401 X \$0.05578). Given that \$75,483 in electric power cost are currently embedded in the base rates, the incremental power cost to Capitol Water due to Idaho Power's rate changes is \$5,653 (\$81,136-\$75,483).

However, in reviewing the Company's input of current Idaho Power rates to the power cost model, Staff discovered that incorrect Idaho Power PCA rates (Schedule 55) for Schedule 7-Small General Service and Schedule 9S-Large General Service-Secondary were used. Capitol Water used a PCA rate of \$0.003273 per kWh for Schedule 7 Service and \$0.001875 per kWh for Schedule 9S Service. The correct Idaho Power PCA rate should be \$0.000094 per kWh for Schedule 7 Service and \$0.001492 per kWh for Schedule 9S Service. Using the corrected PCA rates, Staff recalculated the average cost per kWh to be \$0.055442.

### **Effect of Langley Gulch Power Plant Case**

When the Company filed its Application, the Langley Gulch Power Plant case (Case No. IPC-E-12-14) was still being processed by the Commission. The Company believed that the outcome of the case would impact the annual power cost of Capitol Water. Consequently, the Company made a pro forma adjustment to its annual power cost using the Commission Staff recommendation in the Langley case to increase all customer classes by 7.05%. The Company's proposed proforma increases power cost by an additional \$4,282 above the incremental power cost increase of \$5,653 previously calculated by the Company.

Case No. IPC-E-12-14 was recently decided and Order No. 32585 was issued by the Commission on June 29, 2012 approving an overall revenue requirement increase of 6.87% for Schedules 7 and 9. However, energy rates actually increased by approximately 8% and 7.3% for Schedule 7 and 9, respectively. A new Idaho Power tariff was filed and approved shortly after the Order was issued with an effective date of July 1, 2012. Therefore, Staff believes it is more appropriate to use the new rates in the PPCA calculation rather than make a separate adjustment for Case No, IPC-E-12-14 as in the Company filing. Staff, recalculated the average cost using the new Idaho Power rates with the corrections discussed above to produce an average cost of \$0.059357 per kWh and an incremental power cost of \$10,846. See Attachment A, line 7, Staff Proposal column.

### **Case Preparation Costs**

The Company also requests \$1,200 to cover its costs to have a consultant review Idaho Power's rate increases, determine the effect on Company power costs, and prepare and file the Application. In prior cases, the Commission has allowed the Company to recover \$500 for consultant expenses in Order No. 30881 (Case No. CAP-W-09-01), Order No. 32056 (Case No. CAP-W-10-01), and \$1,000 in Order No. 32325 (CAP-W-11-01). Staff does not oppose the Company's request to recover the \$1,200 consultant fee. As part of its review, Staff asked the Company to justify the \$1,200 amount. The Company responded with detailed information on the total time the consultant took to quantify Idaho Power's Commission-approved rate increases, determine the effect on Capitol Water, and prepare the filing including new tariffs. The consultant anticipated that the application would require 12 hours of work, at the rate of \$100 per hour, for a total charge of \$1,200. Staff notes, based on the review of the consultant's work to date, that the total time the consultant may bill for this case will likely exceed the 12 hours. Staff concludes that \$1,200 is a reasonable consultant fee and that the Commission should allow the Company to recover this expense. The larger number of Idaho Power cases impacting the PPCA case justifies the increase in the consultant fee. It is expected the fee may be lower in the next PPCA filing if the number of Idaho Power cases is more representative of a typical year. Staff also expects that the annual adjustment becomes more routine each year which would require less time in preparing a case.

Adding \$1,200 for rate case expenses results in a total incremental power cost of \$12,046 (\$10,846 + \$1,200). This is the amount the Company should be allowed to collect from Schedule 3. Using the incremental power cost of \$12,046, Staff calculated the new PPCA rate to be a billing surcharge of 1.85% ( $\$12,046 / \$651,738$ ). This compares to the Company's current PPCA rate of 0.37% to recover \$2,442 in additional power costs.

As part of Commission Order No. 30881, the Commission directed the Company to utilize a 0.25% revenue band when determining each year whether to ask the Commission to adjust the Company's total revenue to account for power cost changes. In this case, Staff calculates the incremental increase in the Company's power costs to be \$9,604 ( $\$12,046 - \$2,442$ ), and the percent increase in the Company's total revenue requirement to be 1.47% ( $\$9,604 \text{ incremental power cost} / \$654,180 \text{ revenue per Order 32325} \times 100$ ). The 1.47% increase exceeds the 0.25% band as required by Order No. 30881. Therefore, it is appropriate for the Company to file for rate adjustments. Attachment A shows the Company and Staff proposals for the PPCA.

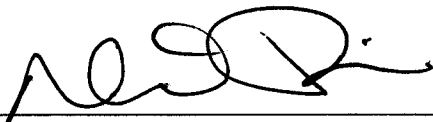
Staff calculates that increasing the Company's current PPCA rate from 0.37% to 1.85% will increase a typical customer's water bill by \$3.43 per year. See detailed calculations in Attachment B.

Staff notes that as of the filing date for these comments, there have been no comments from the public.

**STAFF RECOMMENDATION**

Staff recommends an increase in the Company's PPCA from 0.37% to 1.85%. The new rate should include recovery of \$1,200 for consultant fees. The 1.85% PPCA should be reflected in the Company's Schedule 3, Other Recurring and Non-Recurring Charges.

Respectfully submitted this 24<sup>th</sup> day of July 2012.



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Neil Price  
Deputy Attorney General

Technical Staff: Kathy Stockton  
Gerry D. Galinato

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**Capitol Water Purchased Power Cost Adjustment - Case No. CAP-W-12-01**  
**Calculation of Purchased Power Cost Adjustments (PPCA) and +/- 0.25% Revenue Band**

Line No.	Description	Company Proposal	a/	Staff Proposal	Explanation
1	Base Revenue	\$ 651,738		\$ 651,738	Per Order No.30762 in CAP-W-08-02
2	Normalized 3-yr Average Power Consumption (kwh)	1,454,401		1,454,401	Per Order No.30762 in CAP-W-08-02
3	Average Cost (\$//kWh)	\$ 0.0519		\$ 0.0519	Per Order No.30762 in CAP-W-08-02
4	Power Costs Embedded in Basic Rates	\$ 75,483.41		\$ 75,483.41	Line 3 x Line 2
5	Restated Average Cost per kWh-new IPC Rates	\$ 0.05578653	b/	\$ 0.05935723	Calculated in Workpapers
6	Power Costs Calculated with New IPC Rates	\$ 81,135.98		\$ 86,329.22	Line 5 x Line 2
7	Incremental Power Costs at New Rates	\$ 5,652.57		\$ 10,845.81	Line 6-Line 4
8	Rate Case Cost	\$ 1,200.00		\$ 1,200.00	
9	Proforma Effect of Langley Case	\$ 4,281.86		\$ -	c/
10	Total Incremental Power Costs at New Rates	\$ 11,134.43		\$ 12,045.81	
11	Revenue Required at New IPC Rates	\$ 662,872.43		\$ 663,783.81	Line 10+Line 1
12	Incremental Power Revenue at Old Rates	\$ 2,442.00		\$ 2,442.00	Per Order No.32325 in CAP-W-11-01
13	Total Current Revenue	\$ 654,180.00		\$ 654,180.00	Line 12+Line 1
14	Increase or (Decrease) in Incremental Power Costs	\$ 8,692.43		\$ 9,603.81	Line 10-Line 12
15	% Increase or Decrease in Total Revenue	1.33%	d/	1.47%	d/ (Line 11-Line 13)/Line 13 x 100
16	Exceeds +/- 0.25 % Revenue Band?	Yes		Yes	
17	Purchased Power Cost Adjustment (PPCA) Required	1.71%	e/	1.85%	e/ Line 10/Line 1

**Notes:**

a/From Company Application, Exhibit 2.

b/From Company worksheets with Idaho Power's PCA rates data entry in error (uncorrected).

c/No pro forma adjustment needed because the new IPC rates effective July 1, 2012 already includes the effect of Langley Gulch case (Order No. 32585).

d/This is the calculated % Revenue Band = proposed revenue with new IPC rates-current revenue at current IPC rates/current revenue at current IPC rates x 100. This is also the % change in revenue rate or customer rate due to proposed change in Company's PPCA.

e/PPCA=Incremental Power Revenue at new IPC rates/Base revenue x 100.



Capitol Purchased Power Cost Adjustment - Case No. CAP-W-12-01  
 Effects on Customer Bills - Residential, Flat Rate, Various Sizes of Service Lines

Size of Service Line	No. of Months	Rates in Effect-Sch.1	Total Bill Per Cust. per Sch. 1	Current Cust. Bill @ 0.37% PPCA	Staff Proposal @ 1.85% PPCA	Diff. in Customer Bill per Yr	% Increase of Customer Bill per Yr
<b>3/4-inch</b>							
Winter	7	\$ 12.65	\$ 88.55	\$ 88.88	\$ 90.19	\$ 1.31	1.47%
Summer	5	\$ 16.05	\$ 143.50 a/	\$ 144.03	\$ 146.15	\$ 2.12	1.47%
Total per Year			\$ 232.05	\$ 232.91	\$ 236.34	\$ 3.43	1.47% b/
<b>1-inch</b>							
Winter	7	\$ 15.10	\$ 105.70	\$ 106.09	\$ 107.66	\$ 1.56	1.47%
Summer	5	\$ 16.05	\$ 155.75 a/	\$ 156.33	\$ 158.63	\$ 2.31	1.47%
Total per Year			\$ 261.45	\$ 262.42	\$ 266.29	\$ 3.87	1.47%
<b>1 1/4-inch</b>							
Winter	7	\$ 16.90	\$ 118.30	\$ 118.74	\$ 120.49	\$ 1.75	1.47%
Summer	5	\$ 16.05	\$ 164.75 a/	\$ 165.36	\$ 167.80	\$ 2.44	1.47%
Total per Year			\$ 283.05	\$ 284.10	\$ 288.29	\$ 4.19	1.47%

a/ Total summer bill=(monthly base rate+summer rate) X No. of months.

b/ Majority of Capitol Water's residential customers have 3/4-inch service lines.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 24<sup>TH</sup> DAY OF JULY 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-12-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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