

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: DAPHNE HUANG
DEPUTY ATTORNEY GENERAL

DATE: NOVEMBER 1, 2016

SUBJECT: IDAHO POWER'S APPLICATION FOR AUTHORITY TO INCREASE RATES DUE TO REVISED DEPRECIATION RATES FOR ELECTRIC PLANT-IN-SERVICE, CASE NO. IPC-E-16-23

On October 21, 2016, Idaho Power Company filed an Application for an Order granting it authority to adjust its Idaho jurisdictional base rates due to revised depreciation rates for its electric plant-in-service. The proposed adjustment is an overall rate increase of 0.59 percent.¹ The Company filed its Application concurrently with a request to approve a balance account tracking the incremental costs and benefits associated with the accelerated depreciation schedule for the North Valmy power plant (Case No. IPC-E-16-24). Idaho Power intends to facilitate a single rate change for customers with the simultaneous filings, and asks that the Commission enter final Orders in both matters by April 1, 2017, to allow it to incorporate rate impacts associated with the Applications in its April 14, 2017 Power Cost Adjustment filing.

BACKGROUND

As to a utility's electric plant, depreciation is "the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes that can be reasonably anticipated or contemplated, against which [a utility] is not protected by insurance." Spanos Direct at 2, Exh 3. For financial and ratemaking purposes, Idaho Power periodically conducts studies to determine

¹ Staff counsel contacted Idaho Power about discrepancies in the Company's filing papers. According to Idaho Power, the 0.59 percent figure identified in Attachment No. 3 is correct; the 0.48 percent figure in the Application at 5 is in error.

depreciation rates for each plant account (i.e., the Company's various plant functions such as steam, hydraulic, transmission, distribution, etc.). *See id.* at 3.

The last major changes to the Company's depreciation rates were approved by the Commission June 1, 2012, Order No. 32559 (adopting stipulation), and were based on the Company's electric plant-in-service on June 30, 2011. Application at 2. In 2015, Idaho Power "conducted a new, detailed depreciation study of all electric plant-in-service." *Id.* The new study ("Study") was done by Gannett Fleming Valuation and Rate Consultants, LLC, as to Idaho Power's electric plant-in-service as of December 31, 2015. *Id.* The Study, attached as Exhibit 2 to the direct testimony of Gannett Fleming Vice President John Spanos, provides updates to "net salvage percentages and service life estimates for all plant assets." *Id.* Any depreciation associated with the North Valmy plant due to its accelerated closing is addressed in Case No. IPC-E-16-24, and not in this matter. *Id.* at 2-3.

APPLICATION

Based on the 2015 Study, Idaho Power seeks authority to implement proposed revised depreciation rates and adjusted Idaho jurisdictional base rates, effective June 1, 2017. *Id.* at 2. Idaho Power's proposed depreciation rates are "based on [a] straight line, remaining life method for all electric plant," as was used for the depreciation rates agreed to and adopted in Order No. 32559. *Id.* at 3. The Company "is proposing an adjustment to the book reserve of the general plant accounts," to address that rates consistent "with the amortization period for general plant assets in service today, and those expected to be added in the future, do not align with the actual book reserve." *Id.* The Company recommends a \$7.79 million adjustment to the book reserve of the Company's general plant account book, to bring it "in line with the ages of the surviving plant-in-service." *Id.* at 4. "Idaho Power proposes to amortize this amount over a five-year period, resulting in an increase in amortization expense of \$1.56 million annually." *Id.*

If the Company's proposed depreciation rates are adopted and the proposed reserve adjustment amortized, its "annual depreciation and amortization expense would increase about \$5.69 million on a total system basis, or \$5.50 million on an Idaho jurisdictional basis when applied to the Company's current [Commission-approved] plant-in-service amounts." *Id.* The result is "an increase in the Company's Idaho jurisdictional revenue requirement of \$6,672,588, as measured against the revenue requirement approved in the Company's last general rate case." *Id.* In its Application, Idaho Power asks that the incremental revenue requirement of \$6,672,588

“be recovered from customers through a uniform percentage increase to all base rate components except the service charge.” *Id.* at 5. As shown in Attachment No. 3 to the Application, the proposed change is an overall increase of 0.59 percent.

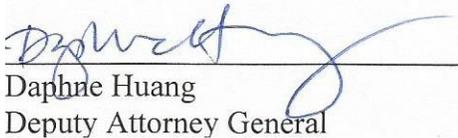
The Company has filed “one set of proposed tariff sheets specifying the proposed rates for providing retail electric service” to its Idaho customers pursuant to this case and the Company’s application concerning the North Valmy plant. *Id.* The Company proposes that, when “final orders are received on both of the proposed requests to change rates effective June 1, 2017, [it] will submit a compliance filing that will include tariff sheets showing the cumulative impact of rate changes associated with both cases.” *Id.*

STAFF RECOMMENDATION

In light of the requested rate increase, Staff recommends that the Commission issue a Notice of Application and Notice of Intervention Deadline. Once interested parties have come forward, and any interventions have been granted, Commission Staff should initiate an informal scheduling conference to address how to process the matter within the requested timeframe.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application and Notice of Intervention Deadline of 21 days from the service date of the Notice and Order?



Daphne Huang
Deputy Attorney General

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