The Honorable C.L. "Butch" Otter
Office of the Governor
Statehouse
Boise, ID 83720-0034

Dear Governor Otter:

It is my distinct pleasure to submit to you, in accordance with Idaho Code §61-214, the Idaho Public Utilities Commission 2010 Annual Report.

It has been an extremely busy year at the Commission. Rate increase filings from utilities are now almost an annual event. In addition to base rate increases, there are also adjustments – usually increases – to other line items on the customer bill. These include energy efficiency riders, annual adjustments to account for the varying costs of power supply not already included in bases rates and changes to the Bonneville Power Administration credit. Customers are increasingly frustrated with not only the dollar amount but the frequency of the rate adjustment filings. The Commission is continually challenged to find ways to make those increases as manageable as possible and to reduce the frequency of filings.

Thanks to a large Power Cost Adjustment (PCA) reduction, Idaho Power Company customers actually saw overall rates decline by an average 5.2 percent. Permanent base rates did increase, by 1.4 percent but a PCA reduction of 6.6 percent netted a 5.2 percent decrease. Customers of Avista Utilities in northern Idaho received a 9.25 percent electric increase and 2.6 percent gas increase, but those increases are spread over three years. Avista requested a one-time 14 percent increase. Avista's Power Cost Adjustment was also an increase of 2.6 percent on the electric side and 4.5 percent on the gas side. Further, Avista customers ended up paying another 2 percent due to a reduction in the Bonneville Power Administration credit. Rocky Mountain Power customers received an average 6.8 percent increase after the utility originally sought a 13.7 percent increase. The increase for residential and small-business customers is actually 5.5 percent, due to a 1.3 percent reduction in that utility's energy efficiency rider.

There is good news to report in the areas of energy efficiency and development of renewable power.

Customer participation in energy efficiency and demand side management programs have resulted in significant reductions to energy use as well as electrical demand on utility generation. Such savings preclude or delay the need for utilities to build new generation or acquire it from more expensive sources. The success of these programs also present challenges for the commission. The programs cost money and utilities are seeking increases in energy efficiency riders to fund the programs. The commission is continuing to refine its methods in testing the cost-effectiveness of these programs to ensure that, even with a rider, customers pay less in the long run because these programs are in place.

We are seeing a significant increase in power purchase agreements between our utilities and developers using anaerobic digestion and other biomass sources as well as solar and wind. But, as with energy efficiency, the success in renewable development poses challenges as well.

Utilities are claiming wind is coming online too quickly. They are seeking a reduction in the eligibility cap – now set at 10 megawatts – under which projects can qualify for commission posted rates under the provisions of the Public Utilities Regulatory Policies Act, or PURPA. That case will be ongoing through early 2012.

Our dedicated staff is working on several additional projects you will find outlined in the pages of this report. This is my last year on the Commission. It has been a privilege and an honor to serve you and the citizens of Idaho.

Sincerely,

Jim Kempton
President
Idaho Public Utilities Commission

Idaho Public Utilities Commission

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Boise, Idaho 83702

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Commission Secretary	334-0338
jean.jewell@puc.idaho.gov	
Executive Administrator	334-0330
Executive Assistant/Public Information Officer	334-0339
gene.fadness@puc.idaho.gov.	
Utilities Division	334-0368
Legal Division	334-0324
Rail Section and Pipeline Safety	334-0330
Consumer Assistance Section	334-0369
Outside Boise, Toll-Free Consumer Assistance	1-800-432-0369

Idaho Telephone Relay Service (available statewide)

Voice:	1-800-377-1363
Text Telephone:	1-800-377-3529
TRS Information:	1-800-368-6185

With this report, the Idaho Public Utilities Commission has satisfied Idaho Code 61-214; this is a "full and complete account" of the most significant cases to come before the commission during the 2009 calendar year. (The financial report on Page 8 covers Fiscal Year July 1, 2009 through June 30, 2010.)

Anyone with access to the Internet may also review the commission's agendas, notices, case information and decisions by visiting the IPUC's Web site at: www.puc.idaho.gov. Commission records are also available for public inspection at the commission's Boise office, 472 W. Washington St., Monday through Friday, 8 a.m. to 5 p.m. A nominal fee of 5 cents per page may be charged for the cost of copying, typically for 30 or more pages.

The Idaho Public Utilities Commission, as outlined in its Strategic Plan, serves the citizens and utilities of Idaho by determining fair, just and reasonable rates for utility commodities and services that are to be delivered safely, reliably and efficiently. During the period covered by this report, the commission also had responsibility for ensuring all rail services operating within Idaho do so in a safe and efficient manner. The commission also has a pipeline safety section that oversees the safe operation of the intrastate natural gas pipelines and facilities in Idaho.

The Commissioners

Jim D. Kempton

Commissioner Kempton began his service on the commission on Oct. 22, 2007. Kempton was appointed by Gov. C.L. "Butch" Otter to fill the unexpired term of Commissioner Paul Kjellander who was appointed to head the newly created Office of Energy Resources. On April 6, 2009, Commissioner Kempton was elected president of the commission.

Before he was appointed to the commission, Kempton was one of two Idaho representatives on the Northwest Power and Conservation Council, appointed to that post by former Idaho Gov. Dirk Kempthorne. While on the council, he also acted as a natural resource cabinet member for Gov. Otter.

Kempton, of Albion, was a member of the Idaho House of Representatives from 1991-2000, where he served on the House Revenue and Taxation Committee and chaired the Transportation and Defense Committee. Earlier, he served for two years on the Environmental Affairs Committee. Kempton earned his bachelor's and master's degrees in physics from the University of Idaho. He was a fighter pilot in the United States Air Force and an associate professor of physics at the United States Air Force Academy. He also worked in the Pentagon as Department of Defense liaison between the Secretary of Commerce and Secretary of Defense on international co-production programs. His Pentagon assignments included Air Force research and development responsibilities in the F-16 fighter program and coordinating Iranian Program Review briefings to the Secretary of the Air Force. He returned to Idaho in 1981 and was engaged in ranching until 1990, when he was elected to the Idaho Legislature. He is a former member of the "Idaho EPSCoR" Board, a National Science Foundation experimental program to stimulate competitive research.

He and his wife, Susan, are the parents of two grown daughters.

Marsha H. Smith

Commissioner Smith is serving her fourth term on the commission. Her current term expires in January 2015. Smith, a Democrat, served as commission president from November 1991 to April 1995.

Commissioner Smith is vice chair of the Western Electricity Coordinating Council (WECC) Board of Directors, chairs the WECC Compliance Committee and is a member of the Scenario Planning Steering Group for the Regional Transmission Expansion Planning Project. She represents Idaho on the Western Interconnection Regional Advisory Body and the State-Provincial Steering Committee. Smith is a past president of the National Association of Regulatory Utility Commissioners (NARUC), serves on the NARUC Board and is a member and past chair of NARUC's Electricity Committee. She is also state co-chair of the Steering Committee of the Northern Tier Transmission Group. She chaired the Western Interstate Energy Board's Committee for Regional Electric Power Cooperation from October 1999 to October 2005. She is a member of the National Council on Electricity Policy Steering Committee, the Harvard Electricity Policy Group, the Idaho State Bar and board president of the Log Cabin Literary Center.

Smith received a bachelor of science degree in biology/education from Idaho State University, a master of library science degree from Brigham Young University and her law degree from the

University of Washington.

Before her appointment to the commission, Commissioner Smith served as deputy attorney general in the business regulation/consumer affairs division of the Office of the Idaho Attorney General and as deputy attorney general for the Idaho Public Utilities Commission. She was the commission's director of Policy and External Affairs and chair of the NARUC Staff Subcommittee on Telecommunications.

A fourth-generation Idahoan, Commissioner Smith has two sons.

Mack A. Redford

Commisisoner Redford was appointed to the commission in February 2007 by Gov. Butch Otter. During 2008 through April 2009, he served as president of the commission. His term expires in January 2013. At the time of his appointment, Commissioner Redford practiced law for the Boise-based firm of Elam & Burke PA, specializing in commercial transactions, construction and engineering law, mediation, real estate and general business.

Redford grew up in the Weiser and Caldwell areas, graduating from Caldwell High School. He received both his bachelor's and law degree from the University of Idaho and in 1967 became a deputy in the Idaho attorney general's office. In 1977, he became a deputy attorney general for the Trust Territory of the Pacific Islands, headquartered in Saipan, Northern Mariana Islands. The territory included a chain of 2,000 islands stretching from Hawaii to the Philippines.

In 1981, Redford became general counsel for Morrison Knudsen Engineers and Morrison Knudsen International, a position that took him to Saudi Arabia where MK was building the King Khalid Military City. In 1991, Redford was retained by TransManche Link, based in Folkestone, England, where he was legal counsel for the Channel Tunnel Contractors, the builders of the 31-mile Channel Tunnel connecting England and France. It is the second-largest rail tunnel in the world.

In 1992, Commissioner Redford joined the Boise firm of Park & Burkett. In 1993, he was retained by the World Bank of the Government of Nepal as contract and claims counsel for the Arun Ill Hydroelectric Project. In 1996, he became general counsel for Micron Construction, which was later acquired by Kaiser Engineers. He joined the Boise law firm of Elam & Burke in 2001.

Since his appointment, Commissioner Redford has become active in the National Association of Regulatory Commissioners (NARUC) where he serves on the International Relations and Water committees as well as the Subcommittee of Nuclear Issues-Waste Disposal.

Commissioner Redford and his wife, Nancy, are the parents of two children.

IDAHO PUBLIC UTILITIES COMMISSION, 1913-2008

Commissioner	From	To
J. A. Blomquist	May 8, 1913	Jan. 11, 1915
A. P. Ramstedt	May 8, 1913	Feb. 8, 1917
D. W. Standrod	May 8, 1913	Dec. 1, 1914
John W. Graham	Dec. 1, 1914	Jan. 13, 1919
A. L. Freehafer	Jan. 14, 1915	Jan. 31, 1921
George E. Erb	Dec. 8, 1917	April 14, 1923
Everett M. Sweeley	May 23, 1919	Aug. 20, 1923
J. M. Thompson	Feb. 1, 1921	Dec. 20, 1932
Will H. Gibson	April 16, 1923	June 29, 1929
F. C. Graves	Sept. 7, 1923	Nov. 12, 1924
Frank E. Smith	March 6, 1925	Feb. 25, 1931
J. D. Rigney	July 2, 1929	Sept. 30, 1935
M. Reese Hattabaugh	March 2, 1931	Jan. 26, 1943
Harry Holden	March 27, 1933	Jan. 31, 1939
J. W. Cornell	Oct. 1, 1935	Jan. 11, 1947
R. H. Young	Feb. 1, 1939	March 19, 1944
B. Auger	Feb. 1, 1943	March 9, 1951
J. D. Rigney	March 30, 1944	April 30, 1945
W. B. Joy	May 1, 1945	March 9, 1951
H. N. Beamer	Jan. 17, 1947	Dec. 31, 1958
George R. Jones	March 12, 1951	Jan. 31, 1957
H. C. Allen	March 12, 1951	Feb. 28, 1957
A. O. Sheldon	March 1, 1957	June 30, 1967
Frank E. Meek	Feb. 1, 1957	Feb. 5, 1964
Ralph H. Wickberg	Jan. 14, 1959	Feb. 23, 1981
Harry L. Nock	May 1, 1964	Sept. 30, 1974
Ralph L. Paris	July 1, 1967	Oct. 5, 1967
J. Burns Beal	Dec. 1, 1967	April 1, 1973
Robert Lenaghen	April 1, 1973	April 15, 1979
M. Karl Shurtliff	Oct. 1, 1974	Dec. 31, 1976
Matthew J. Mullaney	Jan. 2, 1977	Feb. 15, 1977
Conley Ward, Jr.	March 7, 1977	Feb. 9, 1987
Perry Swisher	April 16, 1979	Jan. 21, 1991
Richard S. High	Feb. 24, 1981	April 30, 1987
Dean J. Miller	March 16, 1987	Jan. 30, 1995
Ralph Nelson	May 4, 1987	Feb. 12, 1999
Marsha H. Smith	**Jan. 21, 1991**	**Now Serving**
Dennis S. Hansen	Feb. 1, 1995	Feb. 19, 2007
Paul Kjellander	Feb. 15, 1999	Oct. 19, 2007
Mack Redford	**Feb. 19, 2007**	**Now serving**
Jim Kempton	**Oct. 22, 2007**	**Now serving**

Financial Summary

FISCAL YEARS 2005 - 2009

Description	FY2006	FY2007	FY2008	FY2009	FY2010
Personnel Costs	$3,637,402	$3,467,401	$3,898,109	$4,072,505	$3,939,023
Travel	$144,840	$146,491	$181,275	$136,859	$127,352
Consultants	$40,518	$13,949	$16,041	$0.00	$3,498
Subscriptions	$21,722	$28,321	$27,036	$22,883	$28,355
Emp. Training	$34,424	$28,827	$33,190	$21,396	$17,079
Postage	$8,408	$8,027	$7,174	$8,338	$8,019
Telephone	$31,497	$28,007	$27,335	$27,910	$22,454
Office Supplies	$14,709	$12,824	$17,697	$14,679	$15,307
Office Rent	$115,468	$355,643	$236,497	$236,704	$252,906
Maintenance	$8,652	$14,223	$15,817	$10,290	$15,694
Insurance	$1,487	$2,702	$5,976	$6,380	$3,732
Office Equip.	$0.00	$8,690	$5,279	$1,095	$2,973
Computer Equip.	$22,874	$26,809	$15,934	$4,262	$3,185
Commissioner Equip.	$3,973	$0.00	$0.00	$22,052	$0.00
Other Equip.	$20,082	$0.00	$0.00	$0.00	$0.00
Other Expenses	$108,604	$113,671	$122,130	$102,775	$92,913
Total Expenditures	$4,214,660	$4,255,596	$4,609,484	$4,688,128	$4,531,990
Appropriations	$4,754,600	$4,545,300	$4,944,400	$5,236,800	$5,266,100
Unexpended Balance	$539,940	$289,704	$334,916	$548,672	$734,110

Commission Structure and Operations

Under state law, the Idaho Public Utilities Commission supervises and regulates Idaho's investor-owned utilities – electric, gas, telecommunications and water – assuring adequate service and affixing just, reasonable and sufficient rates.

The commission does not regulate publicly owned, municipal or cooperative utilities.

The governor appoints the three commissioners with confirmation by the Idaho Senate. No more than two commissioners may be of the same political party. The commissioners serve staggered six-year terms.

The governor may remove a commissioner before his/her term has expired for dereliction of duty, corruption or incompetence.

The three-member commission was established by the 12th Session of the Idaho Legislature and was organized May 8, 1913 as the Public Utilities Commission of the State of Idaho. In 1951 it was reorganized as the Idaho Public Utilities Commission. Statutory authorities for the commission are established in Idaho Code titles 61 and 62.

The IPUC has quasi-legislative and quasi-judicial as well as executive powers and duties.

Tell them no!

One of the most frequent questions we get after a utility files a rate increase application is, ***"Why can't you just tell them no?"***

For much of the last 90 years, public utility regulation has been based on the "regulatory compact" between utilities and regulators: In return for an exclusive franchise (territory) granted by regulators, utilities agree to serve **all** those requesting service; and in return for agreeing to invest capital in plant and facilities, utilities are given a reasonable opportunity to earn a fair return on that capital.

In setting rates, the commission must consider the needs of **both** the utility and its customers. The commission serves the public interest, not the popular will. It is not in customers' best interest, nor is it in the interest of the State of Idaho, to have utilities that do not have the generation, transmission and distribution infrastructure to provide safe, adequate and reliable electrical, natural gas and water service. This is a critical, even life-saving, service for Idaho's citizens and essential to the state's economic development and prosperity.

Unlike unregulated businesses, utilities cannot cut back on service as costs increase. As demand for electricity, natural gas and water grows, utilities must meet that demand. In Idaho recently, and across the nation, a continued increase in demand as well as a number of other factors have contributed to rate increases on a scale we have not witnessed before. It is not unusual now for Idaho's three major investor-owned electric utilities to file annual rate increase requests.

In light of these continued requests for rate increases, the Commission walks a fine line in balancing the needs of utilities to serve customers and customers' ability to pay. When a rate case is filed, our staff of auditors, engineers and attorneys will take up to six months to examine the request. If we find the added expense incurred by utilities was prudently incurred and needed to serve customers, we have no choice but to allow the utility to recover that expense. However we can, and often do, deny the utilities' recovery of expenses if we are confident we have the legal justification to do so. All Commission decisions can be appealed to the state Supreme Court.

In the end, customers must be ensured of paying a reasonable rate and utilities must be allowed to recover their legitimate costs of serving their customers and earn a fair rate of return.

In its quasi-legislative capacity, the commission sets rates and makes rules governing utility operations. In its quasi-judicial mode, the commission hears and decides complaints, issues written orders that are similar to court orders and may have its decisions appealed to the Idaho Supreme Court. In its executive capacity, the commission enforces state laws and rules affecting the utilities and rail industries.

Commission operations are funded by fees assessed on the utilities and railroads it regulates. Annual assessments are set by the commission each year in April within limits set by law.

The commission president is its chief executive officer. Commissioners meet on the first Monday in April in odd-numbered years to elect one of their own to a two-year term as president. The president signs contracts on the commission's behalf, is the final authority in personnel matters and handles other administrative tasks. Chairmanship of individual cases is rotated among all three commissioners.

The commission conducts its business in two types of meetings – **hearings** and **decision meetings**. Decisions meetings are typically held once a week, usually on Monday.

Formal **hearings** are held on a case-by-case basis, sometimes in the service area of the impacted utility. These hearings resemble judicial proceedings and are recorded and transcribed by a court reporter.

There are **technical hearings** and **public hearings**. At technical hearings, formal parties who have been granted "intervenor status" present testimony and evidence, subject to cross-examination by attorneys and staff from the other parties and the commissioners. At public hearings, members of the public may testify before the commission.

In 2009, the commission began conducting telephonic public hearings to save expense and allow customers to testify from the comfort of their own homes. Commissioners and other interested parties gather in the Boise hearing room and are telephonically connected to ratepayers who call in on a toll-free line to provide testimony or listen in. A court reporter is present to take testimony by telephone, which has the same legal weight as if the person testifying were present in the hearing room. Commissioners and attorneys may also direct questions to those testifying.

The commission also conducts regular decision meetings to consider issues on an agenda prepared by the commission secretary and posted in advance of the meeting. These meetings are usually held Mondays at 1:30 p.m., although by law the commission is required to meet only once a month. Members of the public are welcome to attend decision meetings.

Typically, decision meetings consist of the commission's review of decision memoranda prepared by commission staff. Minutes of the meetings are taken and decisions reached at these meetings are preliminary, becoming final only when issued in a written order signed by a majority of the commission.

Commission Staff

To help ensure its decisions are fair and workable, the commission employs a staff of about 50 people – engineers, rate analysts, attorneys, accountants, investigators, economists, secretaries and other support personnel. The commission staff is organized in three divisions – administration, legal and utilities.

The staff analyzes each petition, complaint, rate increase request or application for an operating certificate received by the commission. In formal proceedings before the commission, the staff acts as a separate party to the case, presenting its own testimony, evidence and expert witnesses. The commission considers staff recommendations along with those of other

participants in each case - including utilities, public, agricultural, industrial, business and consumer groups.

Administration

The Administrative Division is responsible for coordinating overall IPUC activities. The division includes the three commissioners, two policy strategists, a commission secretary, an executive administrator, an executive assistant and support personnel.

The two policy strategists are executive level positions reporting directly to the commissioners with policy and technical consultation and research support regarding major regulatory issues in the areas of electricity, telecommunications, water and natural gas. Strategists are also charged with developing comprehensive policy strategy, providing assistance and advice on major litigation before the commission, public agencies and organizations. ***(Contact Lou Ann Westerfield, 334-0323 and Wayne Hart, 334-0354, policy analysts.)***

The commission secretary, a post established by Idaho law, keeps a precise public record of all commission proceedings. The secretary issues notices, orders and other documents to the proper parties and is the official custodian of documents issued by and filed with the commission. Most of these documents are public records. ***(Contact Jean Jewell, commission secretary, at 334-0338.)***

The executive administrator has primary responsibility for the commission's fiscal and administrative operations, preparing the commission budget and supervising fiscal, administration, public information, personnel, information systems, rail section operations and pipeline safety. The executive administrator also serves as a liaison between the commission and other state agencies and the Legislature. (***Contact Ron Law, executive administrator, at 334-0331.)***

The executive assistant is responsible for public communication between the Commission, the general public and interfacing governmental offices. The responsibility includes news releases, responses to public inquiries, coordinating and facilitating commission workshops and public hearings and the preparation and coordination of any IPUC report directed or recommended by the Idaho Legislature or Governor. ***(Contact Gene Fadness, executive assistant, at 334-0339.)***

Legal Division

Five deputy attorneys general are assigned to the commission from the Office of the Attorney General and have permanent offices at IPUC headquarters. The IPUC attorneys represent the staff in all matters before the commission, working closely with staff accountants, engineers, investigators and economists as they develop their recommendations for rate case and policy proceedings.

In the hearing room, IPUC attorneys coordinate the presentation of the staff's case and cross-examine other parties who submit testimony. The attorneys also represent the commission itself in state and federal courts and before other state or federal regulatory agencies. ***(Contact Don Howell, legal division director, at 334-0312.)***

Utilities Division

The Utilities Division, responsible for technical and policy analysis of utility matters before the commission, is divided into three sections. ***(Contact Randy Lobb, utilities division administrator, at 334-0350.)***

The **Accounting Section** of seven auditors audits utility books and records to verify reported revenue, expenses and compliance with commission orders. Staff auditors present the

results of their findings in audit reports as well as in formal testimony and exhibits. When a utility requests a rate increase, cost-of-capital studies are performed to determine a recommended rate of return. Revenues, expenses and investments are analyzed to determine the amount needed for the utility to earn the recommended return on its investment. ***(Contact Terri Carlock, accounting section supervisor, at 334-0356.)***

The **Engineering Section** of seven engineers reviews the physical operations of utilities. Staff engineers determine the cost of serving various types of customers, design utility rates and allocate costs between Idaho and the other states served by Idaho utilities. They determine the cost effectiveness of conservation and co-generation programs, evaluate the adequacy of utility services and frequently help resolve customer complaints. The group develops computer models of utility operations and reviews utility forecasts of energy usage and the need for new facilities. ***(Contact Dave Schunke, engineering section supervisor, at 334-0355.)***

The **Telecommunications Section** includes three analysts who handle issues involving telecommunications. ***(Contact Joe Cusick, section supervisor, at 334-0333.)***

The **Consumer Assistance Section** includes six division investigators who resolve conflicts between utilities and their customers. Customers faced with service disconnections often seek help in negotiating payment arrangements. Consumer Assistance may mediate disputes over billing, deposits, line extensions and other service problems.

Consumer Assistance monitors Idaho utilities to verify they are complying with commission orders and regulations. Investigators participate in general rate and policy cases when rate design and customer service issues are brought before the commission. ***(Contact Beverly Barker, administrator for the Consumer Assistance section, at 334-0302.)***

Rail Section

The Rail Section oversees the safe operations of railroads that move passengers and freight in and through Idaho and enforces state and federal regulations safeguarding the transportation of hazardous materials by rail in Idaho. The commission's rail safety specialist inspects railroad crossings and rail clearances for safety and maintenance deficiencies. The Rail Section investigates all railroad-crossing accidents and makes recommendations for safety improvements to crossings.

As part of its regulatory authority, the commission evaluates the discontinuance and abandonment of railroad service in Idaho by conducting an independent evaluation of each case to determine whether the abandonment of a particular railroad line would adversely affect Idaho shippers and whether the line has any profit potential. Should the commission determine abandonment would be harmful to Idaho interests, it then represents the state before the federal Surface Transportation Board, which has authority to grant or deny line abandonments. ***(Contact Ron Law, rail section supervisor, at 334-0331.)***

Pipeline Safety Program

The pipeline safety section oversees the safe operation of the intrastate natural gas pipelines and facilities in Idaho. The commission's pipeline safety personnel verify compliance of state and federal regulations by on-site inspections of intrastate gas distribution systems. Part of the inspection process includes a review of record-keeping practices and compliance with design, construction, operation, maintenance and drug/alcohol abuse regulations.

Key objectives of the program are to monitor accidents and violations, to identify their contributing factors and to implement practices to avoid accidents. All reportable accidents will be investigated and appropriate reports filed with the U.S. Department of Transportation in a timely manner. ***(Contact Ron Law, pipeline safety program supervisor, at 334-0331.)***