
IDAHO PUBLIC UTILITIES COMMISSION

For Immediate Release

Case No. IPC-E-03-13, Order No. 29505

Case No. IPC-E-04-9, Order No. 29506

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Commission approves average 5.2 percent increase in Idaho Power rates

Boise – Idaho Power customers will be paying an average 5.2 percent more in electric rates effective June 1. However, the yearly power cost adjustment order, also released today, means that some customer classes, including irrigators, will get decreases to their overall bills when compared to last year or much smaller increases.

A two-year surcharge imposed on irrigation and small-commercial customers resulting from the 2000-2001 energy crisis expired earlier this month. That means that while irrigation customers received a 13.95 percent increase to base rates, their overall rate declines by 5.8 percent.

Last October, Idaho Power asked the Idaho Public Utilities Commission to approve an average 17.7 percent rate increase and later revised that request down to about 14.5 percent. The company initially sought to increase its annual revenues by \$85.6 million. The commission's order today authorizes the company to collect \$25.3 million in new revenue, 5.2 percent more than current revenues. The commission approved a return on equity of 10.25 percent and an overall rate of return of 7.85 percent. The company requested a minimum 11.2 percent return on equity and an 8.334 percent overall rate of return.

Part of the increase is a \$3.30 monthly service charge for residential and small-commercial customers, up from \$2.51. The company requested \$10.

To send a stronger conservation signal, the commission accepted Idaho Power's proposal to assess a higher rate for residential and small-commercial customers during June, July and August when power is most expensive. However, the commission implemented the higher rate only for electrical use of more than 300 kWh. The rate, which is 12.5 percent higher in the summer, should not apply to use under 300 kWh, the commission said, to allow for basic use such as for lighting and home appliances.

The annual power cost adjustment (PCA), also released today, is a yearly mechanism that increases or decreases customer rates to account for above-normal or below-normal costs of supplying power. Idaho Power's costs of supplying power depend on water levels (in a normal water year, Idaho Power generates 60 percent of its power from hydroelectric dams) and the cost of buying replacement power on the wholesale market or from other sources when hydro generation is short. Although another year of low water could have resulted in a slight increase in the PCA, the company proposed leaving the rate the same to avoid customers getting an increase in both the PCA and in the base rate during the same year.

The PCA was approved at the same time as the rate case to avoid confusion associated with rate changes. The base rate increases and the PCA adjustment for each of the major customer classes are as follows:

- The base rate increase for **residential** customers is 5.98 percent. Including the PCA, the increase is 5.4 percent. The company requested 19.9 percent. **The current average rate with PCA for residential customers is 5.78 cents per kWh. The new average rate is 6.09 cents.**
- For **irrigation** customers, the base rate increase is 13.95 percent. The company requested 25 percent. When the PCA is included, irrigators get an overall reduction of 5.8 percent. **Current average rate with PCA, 5.04 cents per kWh. New average rate, 4.75 cents.**
- **Small-commercial** customers, while getting an increase of 5.97 percent to base rates, end up with an overall increase of 1.5 percent due to the expiration of their two-year PCA surcharge. The company requested 21 percent. **Current average rate with PCA, 7.18 cents per kWh. New average rate, 7.285 cents.**
- **Large-commercial** customers (schools, larger retail stores) receive a base rate increase of 2 percent, but that is reduced to 1.7 percent with the PCA. The company requested 15 percent. **Current average rate with PCA, 4.25 cents per kWh. New average rate, 4.325 cents.**
- The base rate for **industrial** customers increases by 2.4 percent, but after the power cost adjustment the overall rate is a decrease of 5 percent. The company requested 13.9 percent. **Current average rate with PCA, 3.6 cents per kWh. New average rate, 3.42 cents.**

The rates apportioned each customer class are based primarily on the costs to serve that class.

The commission took a number of steps to encourage reductions in electrical demand. In addition to higher summer rates for residential and small-commercial customers, today's order mandates a phase-in of time-of-use rates for industrial customers. Time-of-use rates give industries financial incentive to shift electrical use to off-peak hours. The commission ordered Idaho Power to submit a proposal for a conservation program with industrial customers. The commission also ordered a \$1 million increase to a low-income weatherization fund, increasing current funding from about \$225,000 to about \$1,225,000. It also opened a new case to determine how to avoid financial disincentives to Idaho Power for participating in conservation programs.

Among the largest reductions the commission made to the company's request was an approximate \$25.5 million reduction in rate base* and an \$18.8 million reduction in test year* expenses for a number of items relating to salaries, pensions and incentive pay for Idaho Power executives and employees.

Commissioners expressed concern about the public perception surrounding benefits and employee bonuses paid by IDACORP, Idaho Power's parent company, at the same time customers were paying unprecedented electric rates. "It is difficult to explain why Idaho Power

expected its ratepayers to pay extraordinary power supply costs while it simultaneously rewarded employees with bonuses,” the commission said.

Four public workshops and five hearings, attended by about 350 citizens, were held throughout Idaho Power’s service territory. The commission also received more than 500 written comments. There were several groups represented by attorneys in the case including the Industrial Customers of Idaho Power, the Idaho Irrigation Pumpers Association, the Northwest Energy Coalition, Community Action Partnership of Idaho, AARP and others.

The commission heard from many low-income and irrigation customers. Low-income customers and senior citizens asked the commission to consider current economic conditions before granting any increase. Irrigation customers said the company’s proposed 25 percent increase to irrigation rates would have a severe impact of farms and agricultural communities. A number of customers expressed concern about letting a decade lapse since the last Idaho Power rate case, resulting in a proposed large rate increase and possible rate shock.

Many customers believed that areas of high growth should bear the brunt of the increased costs to serve Idaho Power’s 100,000 customers added since the last rate case. Past commission efforts to attach higher rates or fees on new customers were overturned by the state Supreme Court in *Idaho State Homebuilders v. Washington Water Power and Idaho Public Utilities Commission* in 1984 and in *Building Contractors Association of Southwestern Idaho v. Idaho Public Utilities Commission and Coalition of Boise Water Customers* in 1996. In both cases, the court said higher fees or rates targeted to growth discriminated against new customers.

Irrigators argued that new customer growth, particularly in urban areas, caused increased costs to the company while the irrigation load did not change. Other parties to the case argued that irrigation rates should be even higher, noting that irrigators should pay anywhere from 29 percent to 47 percent more than current rates to fully meet the cost to serve irrigators. Some intervenors in the case complained that other rate classes subsidize irrigation customers.

The commission maintains that the major reason for the increased cost of service to irrigators is the rapidly rising cost of power during peak summer use, which is when irrigators use their power. However, the commission acknowledged that irrigators and other parties to the case “raised serious questions” regarding the accuracy of the cost of service studies and ordered the opening of a separate docket to evaluate cost of service issues.

The commission said the 13.95 percent increase for irrigators, while fair, is significant but unavoidable. “Even if the precise results of the of the cost of service methodology are discounted, the large disparity between those results and existing irrigation base rates shows that in a relative sense, the irrigation class does not pay its own way and other customer classes make up the difference,” the commission said.

Many customers opposed increasing the residential service charge from \$2.51 to \$10 per month. Idaho Power maintained that costs other than billing and meter reading should be included in service charges, including a portion of the investment associated with distribution facilities. The commission said the charge should cover only metering reading and customer billing. The

commission, approving an increase to \$3.30, said the company's proposal would "dampen the incentive for customers to conserve energy," because all customers pay the charge regardless of the amount of energy used. Commission staff noted that residential customers with the lowest usage would see a 298 percent increase in bills with the company's proposal while the largest users would see an 8 percent increase.

The commission adopted a recommendation of the Community Action Partnership of Idaho to increase Idaho Power's funding level of Low-Income Weatherization Assistance from about \$225,000 to about \$1,225,000. In past years, the fund is depleted by mid-year. The commission said weatherization funds lower the amount of uncollectible bills and create permanent electric load reduction, benefiting not only those whose bills are lowered, but all Idaho Power customers.

A full text of the commission's 71-page order is available on the commission's Web site at www.puc.state.id.us. Click on "Idaho Power rate case," under Hot Items in the upper right-hand corner of the page. Copies are also available for public inspection at the commission's offices at 472 W. Washington St. in Boise. The new PCA and base rates for all customers are contained the PCA order, Order No. 29506, which is also on the commission Web site. Interested parties may petition for reconsideration by no later than June 15.

END

***Rate base** – The utility's capital investment from which rates are calculated. In this case, Idaho Power claimed a \$1.55 billion rate base for its Idaho jurisdiction. The commission approved a \$1.52 billion rate base, disallowing about \$27.5 million.

***Test year** – A 12-month period approved by the commission that is intended to accurately reflect expenses and revenue for future years during which new rates are effective. Ideally, abnormal and non-repeated expenses and revenues should not be included in a test year. 2003 is the test year for this case.)

Below is a summary of some of the major adjustments the commission made to Idaho Power's rate base and revenue/expense submissions:

- **Update to actuals.** By using actual test year expenses instead of projected expenses for the last half of 2003, the commission was able to remove \$7.6 million from test year expenses.
- **Prepaid pension expenses.** The company sought to include in rate base \$17.8 million for prepaid expenses relating to a pension fund. The commission denied the entire amount because assets resulted from accounting procedures, not company contributions to the plan. The company has not contributed to the plan since 1995.
- **Incentive pay adjustment.** The company sought to include in rate base and expenses its incentive pay plan that gives employees an additional percentage beyond base pay when IDACORP's earning per share reaches certain levels. The commission said the incentive pay should not be included and removed \$7.8 million from rate base and \$230,500 from test-year expense.

- **Operating pension expense.** The company sought to include a \$9.1 million expense for employee pension expenses to more accurately reflect future pension costs and to remove market volatility and interest rate volatility. The commission denied the adjustment but said it can be re-evaluated in a future rate case.
- **Payroll adjustments.** The company sought to include \$2.9 million for anticipated increases in payroll. Staff determined that actual, not projected, expenses of \$860,600 be used instead. The commission agreed, removing about \$2 million in expenses. The commission also removed \$2.24 million in a salary structure adjustment that will not be paid until 2005, noting the exact amount of the adjustment is not known at this time.
- **Income tax expense.** The commission removed \$11.5 million in test year expenses resulting from a \$41 million tax refund the company received in 2002 as the result of a change in its 2001 tax methodology. The commission said that amount must be repaid in the form of future higher taxes. The commission said ratepayers did not share in the tax proceeds the shareholders received in 2002, will have to repay more than \$41 million in higher tax expense and could be subject to a tax deficiency payment if the IRS determines that Idaho Power did not properly file the 2001 tax return that results from the tax methodology change.
- **Additional income tax assessment.** Idaho Power sought \$2.9 million for additional tax payments during the 1998-2000 audit cycle. The commission averaged the additional tax payments over a three-year period rather than allow the company's proposal to recover the entire amount in each of three years, which could result in ratepayers paying more than the actual expense. The averaging removed \$1.9 million from the company's test-year expenses.
- **Annualizing plant adjustment.** Idaho Power sought to include plant improvements to a generator at the company's Bridger coal plant in Wyoming and improvements to the Brownlee-Oxbow transmission line as expenses, but listed only expenses and not potential revenues or cost savings. The commission allowed the \$19.8 million investment, but also included a proxy increased revenue and reduced expenses of \$995,497. Any additional revenues or reduced expenses will be reflected in the company's next rate case, expected in two to three years.
- **Physical plant improvements.** The commission allowed the company to include \$18.4 million in rate base for further improvements to the Brownlee-Oxbow transmission line and to transmission stations at Star, Vallivue, Midrose and Goshen. However, the company's application did not reflect benefits to customers including additional revenues from growth in those areas or reduced maintenance expenses. The commission included a proxy of \$1,031,733 for anticipated revenues or reduced expenses.
- **Depreciation expenses.** Due to a change in depreciation rates approved by the commission in 2003, the commission removed \$2.2 million from rate base in accumulated depreciation balance and reduced expenses by \$4.4 million in annual depreciation expense.
- **Biological opinion assessment.** The company sought to include \$650,000 in its rate base for legal costs defending a lawsuit brought by the Sierra Club related to a National Marine Fisheries biological opinion. The commission said the expense should be booked in one year rather than added to the permanent rate base and removed the \$650,000 from rate base.

- **Memberships and contributions.** The company sought to include \$326,014 in expenses for political and charitable contributions, memberships in service clubs and to the Edison Electric Institute, which lobbies for power companies and provides education on industry issues and management training. The company later agreed with staff recommendations to remove \$38,000 for political and charitable contributions. The commission accepted one-third of the remaining adjustment stating some expenses have a legitimate business purpose that benefits customers. The commission removed \$95,983 from the company's test year expenses.
- **California legal expenses.** The company sought to include \$350,000 in expenses relating to litigation relating to trading practices of some wholesale energy traders. Though the expense was necessary to ensure ratepayers would receive any potential refunds as a result of the cases, the commission said the amount is an unusual expense and should not be included in the test year that is used to determine permanent rates.
- **Property and liability expenses.** The company sought to include \$748,600 for anticipated increases to its property and liability insurance. Because the anticipated increases are speculative, the commission removed them.
- **Cloud seeding.** The company sought to include about \$1.3 million in costs for an experimental cloud seeding program. Given the experimental nature of the program and lack of demonstrated effectiveness, the commission removed \$214,600 from rate base and about \$900,000 in expenses for the program.

Some intervenors argued that \$53.4 million in costs for the Danskin Power Plant in Mountain Home should not be included in rate base. The Industrial Customers of Idaho Power said the company did not provide information on alternatives it considered to building Danskin and noted that the peaking plant is operating even fewer hours than anticipated.

The commission ruled that Idaho Power is entitled to include Danskin plant costs in rate base. "The extraordinary conditions that existed at the time Danskin was developed warranted a rapid response by the company and justifies the investment in a peaking facility that, by design, is more costly to operate than other types of facilities."

However, the commission noted that the company did not provide additional information as requested. That made it more difficult for the commission to review Danskin's costs for rate base recovery. "We expect the company will not place the commission in a similar position when it seeks cost recovery of the Bennett Mountain generating facility," the commission. The Bennett Mountain plant, also a natural gas facility near Mountain Home, is now being built.