

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-05-10
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE)
DUE TO THE INCLUSION OF THE)
BENNETT MOUNTAIN PLANT) ORDER NO. 29790
INVESTMENT IN ITS RATE BASE.)**

On March 2, 2005, Idaho Power Company filed an Application to recover its capital investment in the new Bennett Mountain generating facility located in Mountain Home, Idaho. The Company sought permission to rate base \$58,022,983 attributable to the cost of constructing the Bennett Mountain plant and the necessary transmission and interconnection facilities. On March 22, 2005, Idaho Power filed an Amended Application. In its Amended Application, the Company calculated that the annual revenue requirement to recover the Bennett Mountain investment was \$9,402,996. The Company proposed to recover this annual revenue requirement by increasing its base rates by a uniform percentage of approximately 1.84%. Idaho Power requested that the proposed increase to its base rates become effective June 1, 2005.

On April 1, 2005, the Commission issued a Notice of Modified Procedure requesting public comments on the Company's Applications. Timely comments were received from the City of Boise, the U.S. Department of Energy on behalf of the INEEL, the Commission Staff, and 18 customers. Idaho Power submitted reply comments on May 12, 2005. After reviewing the Applications and the comments, we approve the Amended Application as modified below.

BACKGROUND

On January 2, 2004, the Commission issued Order No. 29410 approving Idaho Power's Application for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate the Bennett Mountain Power Plant (Case No. IPC-E-03-12).¹ Bennett Mountain is a 162 MW natural gas-fired, simple-cycle power plant. The plant was constructed by Mountain View Power, Inc. Williams Northwest Pipeline will provide the natural gas necessary to fuel the plant. Mountain View constructed the natural gas pipeline necessary to interconnect with the Williams' pipeline.

¹ The Commission issued Certificate No. 420 authorizing Idaho Power to construct the Bennett Mountain plant.

In its September 26, 2003 Application for authority to construct the Bennett Mountain plant, Idaho Power provided the Commission with a "Commitment Estimate" of the project's total capital costs. The Commitment Estimate for the project was \$54 million, which included the firm bid price of the project (\$44.6 million) plus additional costs such as sales taxes, AFUDC, oversight, and construction change orders. Order No. 29410 at 4. The Commitment Estimate did not include the cost of constructing or upgrading transmission facilities necessary to connect the Bennett Mountain plant with the Company's existing transmission system, any legally required equipment changes, and material changes in assumed escalation forecast rates. *Id.* at 16. Idaho Power estimated at that time the interconnection and transmission upgrades for the plant would cost between \$5.5 to \$11.6 million. Reasonable and prudent fuel costs for the Bennett Mountain plant were to be recovered through the Company's annual Power Cost Adjustment (PCA) mechanism. *Id.*

In the Certificate Order the Commission authorized Idaho Power to construct the plant and recover at least the base price of the plant, \$44.6 million. Reasonable and prudent costs above this amount up to the Commitment Estimate of \$54 million, as well as the transmission costs, were subject to subsequent review in this case. Order No. 29422 at 3.

THE APPLICATIONS

A. Capital Costs

The Company filed direct and supplemental testimony and exhibits to support its Applications. Company witness Greg Said stated in his testimony that the Bennett Mountain plant will be in commercial operation before June 1, 2005. Said Direct Testimony at 5. He stated that the total investment in the Bennett Mountain plant itself is \$50,298,492,² which is well under the Commitment Estimate of \$54 million. This amount includes the following components: \$42,932,458 as Construction Work in Progress (CWIP) and \$7,366,034 for other anticipated expenses to be booked during the months of February, March and April. Said Direct at 7.

In addition to plant investment, the Company requested recovery of its investment for interconnection facilities and transmission upgrades in the amount of \$7,724,491. Company witness Said observed in his prefiled testimony that the \$7.7 million for transmission and

² This figure includes the \$44.6 million base price for the plant and \$1,358,291 for allowance of funds used during construction (AFUDC).

interconnection facilities falls within the Company's cost-estimate range (\$5.5 to \$11.6 million) contained in its September 2003 Application. Said Direct at 8-9.

B. The Proposed Change in Rates

Based upon its authorized rate of return of 7.852% per Order No. 29601, Idaho Power initially calculated in its Application that the \$58 million investment results in an additional annual revenue requirement of \$13.48 million. The Company initially suggested that base rates be uniformly increased by 2.6%. In its Amended Application, the Company disclosed that it had used an incorrect "federal and state income tax rate" that overstated the annual revenue requirement. Using the correct combined tax rate of 39.1% per Order No. 29601, Idaho Power subsequently requested a lower annual revenue requirement of \$9,402,996. Amended Application at 5. To recover this annual amount, the Company proposed a uniform average percentage increase of approximately 1.84% for all existing customer classes. Amended Application at 5-6; Said Supp. at 4; Exh. 10. In addition, the Company also proposed to increase its special contract rates by about 1.84% for the three special contract customers (Micron (1.85%), Simplot, and U.S. Department of Energy at the INEEL). Exh. 10. The Company requested that the increase in base rates become effective June 1, 2005, to coincide with any PCA rate change which may occur. Amended App. at 4; Exh. 9.

THE COMMENTS

A. Customer Comments

Idaho Power customers offered a wide range of comments. Ten customers opposed any rate increase as a consequence of recovering the Bennett Mountain costs. These customers suggested that Idaho Power and its stockholders should be responsible for the construction costs. Two other customers objected to ratebasing the plant's costs because of its technology. As mentioned above, the Bennett Mountain plant is a natural gas-fired, simple-cycle combustion turbine. In particular, one customer suggested that Idaho Power should have acquired power from a nuclear power plant, while the other customer recommended that the Company should have constructed a generating plant that uses renewable resources.

Six other customers objected primarily to the proposed rate design. A Mountain Home customer suggested the Commission eliminate the proposed rate increases for Mountain Home residents. He argued that these residents have to bear the "construction impacts, disruptive noise conditions during plant start-up, and impaired visual impact caused by the power

plant and its transmission lines.” The Mayor of Salmon also requested that school districts be exempted from the proposed rate increase.

Finally, two other customers argued that the proposed rate increases should be assessed on the Company’s new customers. They maintained that if the plant was built to meet the growing load, then the rate increases ought to be assessed on new customers.

Commission Findings: We begin our discussion by addressing several issues raised in the customers’ comments. As noted above, two customers suggested that we restrict the proposed rate increase to the Company’s new customers. Although this may appear to be a reasonable alternative, the Idaho Supreme Court has ruled that such a rate design would unlawfully discriminate between old customers and new customers. In *Building Contractors Assoc. of Southwestern Idaho v. Idaho PUC*, the Supreme Court held that it was inappropriate to assess the investment costs of new plant to solely new customers. 128 Idaho 534, 916 P.2d 1259 (1996). In *Building Contractors*, the Court noted that each new customer that has come into the system at any time has contributed to the demand for new facilities. The Court concluded that recovering the costs for new plant investment from new customers alone would constitute unlawful discrimination. *Id.* at 538, 916 P.2d at 1263.

It would also be unreasonable to exclude Mountain Home customers or school districts from the proposed rate increases. These customers will benefit from this generating resource. This is especially true this year as drought conditions persist.

Those comments that question the generating technology utilized by the Bennett Mountain plant are beyond the scope of this case. As indicated above, the Commission previously found in Order No. 29410 that Bennett Mountain’s natural gas-fired technology was reasonable and that the public convenience and necessity required additional generation to meet the summer peaking load for 2005. Accordingly, the Commission issued Certificate No. 420 authorizing Idaho Power to construct the Bennett Mountain plant. A nuclear plant could not be constructed in time to meet the anticipated load this summer. We note that Idaho Power’s Integrated Resource Plan (IRP) states that the Company intends to acquire 400 MW of renewable generation (wind and geothermal) in the next 10 years. *See* Order No. 29762 at 2.

B. Bennett Mountain Costs

1. Staff Audit Results. The Staff audited the project costs and examined the controlling contracts. Using actual costs through March 2005 and projected costs for April 2005,

the Staff calculated that the Bennett Mountain project totaled \$58,042,946 without the adjustment discussed below. Final project costs for the plant were \$50,196,872 (\$44.6 million base price + \$5,596,872 for AFUDC, sales taxes, start up fuel and change orders). The costs of the transmission and interconnection facilities were \$7,846,074. Staff noted that the final project costs were \$19,936 greater than the amount reported in the Company's Application. Staff stated that this variance "does not seem out of the ordinary given the detail and the nature of the costs." Staff Comments at 4.

Staff also reported that the Company's final acceptance letter for the plant was transmitted to the contractors on April 1, 2005. Control and operation of the plant has been transferred to Idaho Power. Consequently, Bennett Mountain is now available for serving Idaho ratepayers.

2. Change Order No. 1 Adjustment. Staff recommended that the Commission make one adjustment to the cost of the Bennett Mountain project. Section 10.1 of Idaho Power's contract with Mountain View dated November 6, 2003 provides that if Idaho Power does not issue a "Notice to Proceed" to Mountain View by December 31, 2003, then Idaho Power agrees to pay a penalty of not more than \$100,000 so long as the Notice to Proceed is issued by January 31, 2004. Staff Comments at 5. Pursuant to this section, Idaho Power issued Change Order No. 1 increasing the base plant cost by \$71,875 because Idaho Power delayed issuing the Notice to Proceed until January 24, 2004.

Staff argued that this delay penalty should not be passed onto Idaho ratepayers. Although Idaho Power contemplated that it needed to receive the CPCN authorizing the construction of Bennett Mountain by December 31, the Company did not file its Application until September 26, 2003. The Staff asserted that if Idaho Power needed authorization by December 31 (so it could then issue the Notice to Proceed), then it should have filed its Application earlier than September 26. "The delay in submitting the Notice to Proceed could have been avoided if Idaho Power filed its Application earlier." Staff Comments at 7.

Staff also noted that the Commission issued Order No. 29410 on January 2, 2004 – the next business day after December 31. This Order authorized Idaho Power to construct the Bennett Mountain plant. The Order noted that "Certificate No. 420 will be issued to Idaho Power." Order No. 29410 at 16. Staff argued that the Company did not satisfactorily explain the delay and the subsequent penalty. Accordingly, the Staff recommended that the delay penalty

contained in the first change order in the amount of \$71,875 be disallowed for recovery from ratepayers. In addition to removing this cost from the plant's total cost, Staff recommended that the Commission reduce the depreciation expense by \$2,315 and reduce the property tax expense by \$1,384. These latter two adjustments are associated with the rate base reduction of the Change Order.

Commission Findings: When the Commission authorized Idaho Power to construct the Bennett Mountain project pursuant to Order No. 29410, we recognized that in the ordinary course of events Idaho Power would recover at least \$44.6 million and could recover up to the Commitment Estimate of \$54 million. In other words, this case would review the reasonableness of the plant costs above the bid price and the costs of the transportation and interconnection facilities. Based upon our review of the Application and Staff's auditing comments, we find that the costs for the transmission and interconnection facilities in the amount of \$7,846,074 are reasonable and shall be included in rate base.

We next turn to the Staff's recommendation regarding Change Order No. 1. We agree with Staff and find that it is unreasonable for the plant costs to include the \$71,875 attributable to the delay in issuing the "Notice to Proceed." We also note that Idaho Power did not challenge this adjustment in its reply comments. Consequently, we reduce the plant capital investment by this amount. Accordingly, Idaho Power may rate base its capital investment for the plant in the amount of \$50,124,997 (\$50,196,872 - \$71,875). We find this adjustment causes the depreciation expense to be reduced by \$2,315 and property tax expense by \$1,384 for a final revenue requirement of \$9,391,958.

We further find that Bennett Mountain is operational and available to meet the needs of Idaho ratepayers. Although southern Idaho has been the recipient of much needed rainfall during the month of May, we anticipate that Bennett Mountain will be utilized to meet the Company's summer loads. This is all the more likely as Idaho experiences another year of drought conditions.

3. Incremental Cost of Power Supply. In its audit, the Staff noted that the Company did not adjust base rates to reflect the change in the incremental cost of power supply. The incremental costs of power supply (fuel costs plus purchased power costs less secondary sales revenues) decrease when a new generating resource is added to rate base. Instead of adjusting base rates, the Company proposes in its Application to capture the incremental power supply cost

reduction through the PCA mechanism. This is accomplished by allowing the PCA to capture the difference in normalized power supply costs with and without Bennett Mountain and to credit ratepayers the 10% difference in the sharing mechanism.

Staff asserted that this approach captures the same \$478,300 reduction in power supply costs that would have been captured if the change were made to base rates. Staff accepted the Company's methodology because it achieves the same results as the more traditional adjustment to base rates and because the Company has incorporated this change in its 2005 PCA filing. *Id.* at 9. However, Staff recommended that in future filings the change in incremental power supply costs be included in base rates and that the appropriate PCA adjustments be made. The PCA adjustments would include updating the PCA base and the forecast formula. *Id.*

Commission Findings: The Commission agrees and directs Idaho Power to include the changes in incremental power supply costs in base rates in its future filings. The reduction in power supply costs shall also be reflected in the Company's 2006 PCA Application.

C. Rate Design

1. The City of Boise and DOE. Although the City of Boise and the U.S. Department of Energy did not object to the recovery of Bennett Mountain costs, they did object to Idaho Power's proposal to uniformly spread the rate increase across all customer classes. The City raised two objections. First, the City stated that if the generation from Bennett Mountain was primarily directed to meet the summer peaking load, then the Commission should deny or reduce the proposed increase to Schedule 41 – Street Lighting. The City argued that street lights “only operate during non-peak periods.”

Second, the City objected to the proposed increase in the street lighting schedule based upon the Company's cost-of-service study from its last general rate case, No. IPC-E-03-13. The City asserted that the Company's cost-of-service study shows that street lighting rates are greater than the cost of such service. Accordingly, the City urged the Commission to correct this inequity.

The Department of Energy also objected to the projected increase in its special contract rate for service to the Idaho National Engineering and Environmental Laboratory (INEEL) based upon the last cost-of-service. The Department noted that the cost-of-service index for the INEEL, residential customers, and small commercial customers remains at 105%.

This was in contrast to “the cost of service index for Irrigation customers [at] only 76 percent, so rate revenue [from] Irrigation customers was 24 percent below cost of service.” DOE Comments at 2.

To bring rates more in line with the Company’s last cost-of-service, DOE proposed allocating the \$9.4 million increase among the customer classes in the same distribution of rate increases employed by the Commission in the recent rate case. *Id.* Using this approach would continue the progress to cost based rates envisioned in Order No. 29505.

2. Staff. With the adjustments attributable to Change Order No. 1, Staff supports the Company’s rate design methodology. If the Commission adopts the Staff’s recommendation regarding Change Order No. 1, then Staff recommends that the Company be directed to file conforming schedules which reflect the Commission’s decisions in this case, the tax case (IPC-E-05-14), and the pending PCA case (IPC-E-05-15) so that new rates will be effective on June 1, 2005.

3. Idaho Power Reply. Idaho Power filed a reply to the rate design comments offered by the City of Boise and the Department of Energy. Idaho Power requested that the Commission not deviate from the proposed uniform percentage rate increase proposed by the Company for two reasons. First, Idaho Power asserted that deviating from a uniform rate design will make it “impossible for the Company to include the Bennett Mountain investment in rates [to be effective] on June 1, 2005.” Reply Comments at 2. Idaho Power noted that the Commission has in the past increased rates by a uniform percentage when the Company added a new generating facility to its rate base. “In those prior applications, the Commission has accepted the Company’s proposal that each class of customers rates be increased on the uniform percentage basis until the next general rate case when rate design can be addressed on a comprehensive basis.” *Id.*

Second, Idaho Power stated that it intends to file a new general rate case using 2005 as a test year. Consequently, the uniform percentage increase requested in this case “will only be in place for a relatively short period of time before a comprehensive review of rate design takes place in [the next] general rate case.” *Id.* Accordingly, the Company requested that the Commission approve the uniform percentage increases to base rates as proposed and defer rate design changes until the upcoming rate case.

Commission Findings: Based upon our review of the Application and comments, we find it appropriate to spread the adjusted base rate increases uniformly to all customer classes and the special contract customers. While we recognize that use of a uniform rate design does not move us closer to the Company's cost-of-service, we nevertheless find it appropriate in this case. Bennett Mountain represents a single issue of a limited duration especially given the fact that the Company has indicated it will file a general rate case using a 2005 test year. Given the limited scope of this case, we find that it is more appropriate to consider rate design issues in the upcoming general rate case. It is our intention that rate design issues be taken up in the rate case. We also note that there is a pending case regarding Idaho Power's cost-of-service, Case No. IPC-E-04-23. Work on this case has not been completed.

The Commission orders the Company to file new rate schedules that reflect the outcome from three current cases: (1) this Bennett Mountain case with the changes directed above; (2) the Commission's decision related to the changes in base rates for the tax adjustments in Order No. 29789; and (3) the Commission's decision in the pending PCA case. These new rates shall be effective on June 1, 2005.

In summary, we find that the Bennett Mountain plant is used and useful and available for service to Idaho ratepayers. Based upon our review, the Commission authorizes Idaho Power to rate base the capital costs of the plant in the amount of \$50,124,997. The Commission further authorizes the Company to rate base and recover the costs of transmission and interconnection facilities in the amount of \$7,846,074. The total rate base increase is \$57,971,071 that represents an increased revenue requirement of \$9,391,958. With the additions to the Company's rate base, the Commission finds that the present rates are insufficient to fairly compensate the Company for its plant investments. *Idaho Code* § 61-622. Consequently, the Commission authorizes a uniform increase in base rates effective June 1, 2005.

ORDER

IT IS HEREBY ORDERED that Idaho Power Company's Application to rate base the capital costs of the Bennett Mountain plant is approved as conditioned above. The Company is authorized to rate base \$50,124,997. The Company is also authorized to rate base \$7,846,074 in transmission and interconnection facilities.

IT IS FURTHER ORDERED that the proposed annual revenue requirement of \$9,402,996 be adjusted to reflect the elimination of Change Order No. 1, its depreciation expense

of \$2,315, and a reduction in the property tax expense of \$1,384. The Commission authorizes an annual increase in revenue requirement of \$9,391,958.

IT IS FURTHER ORDERED that the future filings by the Company reflect the associated reduction in power supply costs in base rates. Corresponding adjustments to the PCA base and its forecast formula shall also be incorporated in the Company's next PCA filing.

IT IS FURTHER ORDERED that the Company file new rate schedules in conformance with this Order as well as the Tax Order No. 29789 and the PCA Case No. IPC-E-05-15. The changes in base rates attributable to this Application shall be effective on June 1, 2005.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-05-10 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-05-10. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th
day of May 2005.



PAUL KJELLANDER, PRESIDENT

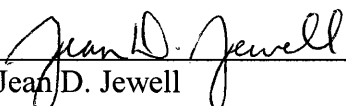


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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