

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF**

FROM: DON HOWELL

DATE: MARCH 23, 2005

**RE: IDAHO POWER'S APPLICATION TO RATE BASE THE NEW BENNETT
MOUNTAIN POWER PLANT AND INCREASE BASE RATES,
CASE NO. IPC-E-05-10**

On March 2, 2005, Idaho Power filed an Application to recover its investment in the new Bennett Mountain generating facility. More specifically, the Company seeks to rate base \$58,022,983 attributable to the cost of constructing the generating facility and the necessary transmission and interconnection facilities. Idaho Power initially calculated that the addition to rate base will result in an increase to its annual revenue requirement of \$13,482,146. To recover the proposed revenue increase, the Company initially suggested that rates for all existing customer classes and its three special contract customers be uniformly increased by 2.6%. The Company requested the increase to its base rates become effective June 1, 2005, which would coincide with any rate change caused by the annual Power Cost Adjustment (PCA) mechanism.

On March 22, 2005, Idaho Power filed an Amended Application. The Company noted that it had used an incorrect "federal and state income tax rate" that overstated the proposed increase in the Company's annual revenue requirement. Using the correct federal and state income tax rate of 39.1% approved by the Commission in its rate case Order No. 29601, now results in a proposed additional revenue requirement of \$9,402,996. Amended Application at 5. To recover this revenue amount, the Company proposed to increase its base rates by a uniform percentage increase of approximately 1.84%. *Id.* at 5-6, Revised Atch. 4.

BACKGROUND

In January 2004, the Commission issued Order No. 29410 approving Idaho Power's Application for a Certificate of Public Convenience and Necessity to construct and operate the

Bennett Mountain Power Plant (Case No. IPC-E-03-12).¹ As described in greater detail in Order No. 29410, Bennett Mountain is a 162 MW natural gas-fired, simple-cycle power plant located in Mountain Home. The plant was constructed by Mountain View Power, Inc. Williams Northwest Pipeline will provide the natural gas necessary to fuel the plant. Mountain View will also construct the natural gas pipeline necessary to interconnect with Williams.

In its prior 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, change orders, etc. Order No. 29410 at 4. The Commitment Estimate did not include the cost of constructing or upgrading transmission facilities necessary to connect Bennett Mountain with the existing transmission system, legally required equipment changes, and material changes in assumed escalation forecast rates. *Id.* at p. 16. In September 2003 Idaho Power estimated that the interconnection and/or transmission upgrades for the plant may cost between \$5.5-11.6 million. Reasonable and prudent fuel costs for the Bennett Mountain Plant are to be recovered through the PCA mechanism. *Id.*

THE PRESENT APPLICATION

A. Capital Costs

In the testimony that accompanies the Application, Company witness Greg Said states that the Bennett Mountain plant will be in commercial operation before June 1, 2005. Said Prefiled Testimony at 5. He stated that the total investment in the Bennett Mountain plant itself is \$50,298,492, which is well under the Commitment Estimate of \$54 million. This figure include the following components: \$42,932,458 as Construction Work in Progress (CWIP); \$1,358,291 for allowance of funds used during construction (AFUDC); and \$7,366,034 for other anticipated expenses to be booked during the months of February, March and April. Said Prefiled at 7.

In addition to plant investment, the Company seeks 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

¹ The Commission issued Certificate No. 420 authorizing Idaho Power to construct the Bennett Mountain Plant. Application, Exh. 2.

interconnection facilities falls within the Company's cost-estimate range (\$5.5 to 11.6 million) contained in its September 2003 Application. Said Prefiled at 8-9. In summary, the Company requests authority to rate base \$58,022,983 (\$50,298,492 for the plant and \$7,724,491 for interconnection and transmission facilities). Said Prefiled at 7.

B. Proposed Rates

Based upon its rate of return of 7.852% authorized in the recently completed rate case, Idaho Power calculates in its Amended Application that it is entitled to an additional annual revenue requirement of \$9.403 million. Exh 3, page 1, line 40. To recover this additional revenue, the Company proposes a uniform averaged percentage increase of approximately 1.84% for all existing customer classes. Amended Application at 5-6, Revised Atch. 4. In addition, the Company also proposes to increase its special contract rates by about 1.84% for the three special contract customers (Micron (1.85%), Simplot, Dept. of Energy). Revised Atch. 4. The Company proposes that the increase in base rates become effective June 1, 2005, to coincide with any PCA rate change which may occur.

Idaho Power states in its Application that it had issued media releases and will notify its individual customers by "bill stuffers." The Company also filed direct testimony and exhibits of Greg Said to support its Application and Amended Application.

STAFF ANALYSIS

In Order Nos. 29410 and 29422, the Commission found that in the ordinary course of events Idaho Power can anticipate ratebasing \$44.60 million for the plant. "Reasonable and prudent cost incurred above that figure up to the Commitment Estimate of \$54.0 million will be reviewed in a subsequent proceeding." Order No. 29410 at 16. The Company has calculated its proposed revenue increase based upon the Company's recently completed general rate case except for the addition of the Bennett Mountain capital investment. The Company's rate case was concluded in September 2004. Order No. 29601.

The Staff believes that this case may be properly processed under Modified Procedure. Staff proposes and the Company has agreed that if this case is processed under Modified Procedure, the Commission should set an extended comment period with comments due May 6, 2005.

COMMISSION DECISION

1. Does the Commission wish to process this Amended Application via Modified Procedure or should this matter be set for hearing?

2. Because this matter involves a proposed increase to Idaho Power's base rates, does the Commission wish to schedule public workshops under Rule 125? If yes, does the Commission desire to combine the workshop(s) with workshop(s) that may be set for PCA rates (if there is a proposed PCA rate increase)?

3. If the Commission desires to process this case under Modified Procedure, does it wish to establish an extended comment period with comments due May 6, 2005?

4. Anything else?



Don Howell

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