

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-05-28
AUTHORITY TO INCREASE ITS BASE)
RATES AND CHARGES FOR ELECTRIC)
SERVICE IN THE STATE OF IDAHO) ORDER NO. 30035
_____)**

On October 28, 2005, Idaho Power Company filed an Application seeking authority to increase its “base” rates¹ an average of 7.8%, or an annual revenue increase of approximately \$44 million. On January 20, 2006, the Commission issued its scheduling Order that suspended the rate increase and set the matter for public hearing. On February 27, 2006, all the parties entered into a settlement Stipulation that resolved all of the issues in the case. As set out in greater detail below, the parties agreed in the Stipulation that Idaho Power should be allowed to increase its Idaho jurisdictional base rates by \$18.1 million annually. To recover the agreed revenue requirement, the parties recommended a uniform rate increase to most customer classes of approximately 3.2%. On March 9, 2006, the Commission issued a notice of the settlement and invited public comment and testimony on the settlement.

Based upon our review of the initial Application, the settlement Stipulation, the testimony of the parties and the public comments, we approve the settlement Stipulation. Consequently, base rates for most classes of service shall increase an average of 3.2% on June 1, 2006.

BACKGROUND

A. The Original Application

In its Application Idaho Power initially sought an annual revenue increase of \$43,947,847 based upon a 2005 test year. The Company asserted that it needed the additional revenue to cover its increased operating costs. The Company sought a return on rate base of 8.42%, realizing a return on common equity in the range of 11 to 12%. Order No. 29919 at 1. The Company proposed an adjusted total rate base of \$1,790,150,058. *Id.*

¹ Base rates are combined with the annual Power Cost Adjustment (PCA) rates to produce a customer’s overall energy rate. On April 12, 2006, Idaho Power filed its annual PCA Application to reduce PCA rates by an average of about 19%. Case No. IPC-E-06-7.

Turning to the proposed rate design, Idaho Power recommended that base rates for each customer class (except for dusk-to-dawn lighting and unmetered service)² increase by a uniform percentage of 7.84%. The Company also proposed that the base rates for its three special contract customers (J.R. Simplot, Micron, and the U.S. Department of Energy at the Idaho National Laboratory) also increase by 7.84%. *Id.* at 2.

The Company proposed to maintain its seasonally adjusted rate design (a 25% increase in rates to dampen demand in June, July and August) and maintain the 300 kilowatt hour (kWh) initial usage threshold for residential and small commercial customers. Idaho Power also proposed to increase the monthly service charge for residential, small commercial, large commercial and industrial customers. If approved, the monthly service charge for residential (Schedule 1) and small commercial (Schedule 7) customers would increase from \$3.30 to \$6.00 per month. For large commercial (Schedule 9) and industrial – secondary service (Schedule 19) customers, the Company proposed to increase the service charge from \$5.60 to \$12.00 per month. For industrial (primary service) customers the service charge increase would be from \$125 to \$200 per month. *Id.* at 3.

The Company also proposed several other rate design changes for the large customer classes. For large commercial customers taking secondary service (Schedule 9), the Company proposed a declining-block two-tier energy charge, and blocked demand and basic charges with no charge for the first 20 kW of billed demand and basic load capacity. For industrial customers (Schedule 19), Idaho Power proposed to increase the service charge, basic charge, and the seasonal time-of-use demand charges and energy charges. For irrigation customers (Schedule 24), Idaho Power proposes to eliminate the out-of-season demand charge and reinstate the differentiated in-season and out-of-season energy charges.

B. Parties

In Order No. 29919 dated November 22, 2005, the Commission issued its Notice of Application and established a deadline for intervention. Besides Idaho Power and the Staff, the Commission granted intervention³ to the following parties:

² Rates for dusk-to-dawn (Schedule 15) and unmetered service (Schedule 40) would not be increased.

³ On December 6, 2005, Time Warner Telecom of Idaho filed a Petition to Intervene and Idaho Power opposed the intervention. Before the Commission ruled on the Petition and objection, Time Warner withdrew its Petition pursuant to Rule 67, IDAPA 31.01.01.067.

Idaho Power Company:	Barton L. Kline Monica B. Moen
Commission Staff:	Donald L. Howell, II Cecelia A. Gassner Deputy Attorneys General
Idaho Irrigation Pumpers Association:	Randall C. Budge Eric L. Olson Racine, Olson, Nye, Budge & Bailey, Chartered
Industrial Customers of Idaho Power:	Peter J. Richardson Richardson & O'Leary, LLP
Micron Technology:	Conley E. Ward Givens Pursley LLP
U.S. Department of Energy:	Lawrence A. Gollomp Assistant General Counsel
Northwest Energy Coalition:	William M. Eddie, Esq. Advocates for the West
Kroger Company:	Michael L. Kurtz Kurt J. Boehm Boehm, Kurtz & Lowry

C. Course of Proceedings

On November 22, 2005, the Commission issued its Notice of Application and a deadline for intervention. The initial Notice of Parties was issued on December 21, 2005. On January 5, 2006, the parties convened a telephonic scheduling conference. Based upon the agreement of the parties, the Commission issued its scheduling Order No. 29957 on January 20, 2006. Pursuant to the Commission's scheduling Order, the Staff convened public workshops for the purpose of providing information about the rate case in Boise, Twin Falls and Pocatello.

The parties held two settlement conferences on February 7 and 14, 2006. All of the parties or their representatives attended or participated in the settlement conferences. As a result of the settlement negotiations, all the parties executed a settlement Stipulation. The Stipulation and Motion for Approval of Stipulation were filed by Idaho Power on February 27, 2006. The

Motion urged the Commission to adopt and approve the Stipulation in its entirety. On March 1 and 2, 2006, respectively, the Commission Staff and the Irrigators filed testimony in support of the settlement Stipulation. On March 16, 2006, Idaho Power filed its testimony in support of the Stipulation.

On March 9, 2006, the Commission issued Order No. 29995 serving as a public notice that the parties had entered into a settlement Stipulation. In its Order, the Commission invited public comment regarding the Stipulation be filed no later than March 30, 2006. This Order also required that all petitions for intervenor funding be filed no later than April 19, 2006.

On April 11, 2006, the Commission convened its technical hearing on the settlement Stipulation. All the parties except Kroger Company entered appearances and participated in the hearing. The Commission also convened public hearings in Boise, Pocatello and Twin Falls on April 11, 24, and 26, 2006, respectively.

THE SETTLEMENT STIPULATION

1. Revenues, Test Year and Adjustments. All the parties agree that Idaho Power should be allowed to increase its Idaho jurisdictional base rates to recover \$18.1 million in additional annual revenue. The parties did not set a return on common equity but agreed to utilize an overall rate of return of 8.1%. Stipulation at ¶ 6. The parties agreed that Idaho Power's system net power supply cost is \$45,279,800. This amount is calculated by subtracting the Company's Cloud Seeding Program in the amount of \$1.9 million from the net power supply cost of \$47,179,800 (including the Bennett Mountain Power Plant). The parties also agreed to use 2005 system loads in the amount of 14,819,152 MWh as proposed in the Company's Application. *Id.* at ¶ 6(a) and (b).

The parties agreed to exclude incentive pay for senior managers from the test year revenue requirement. The parties also agreed that it is reasonable to include an employee incentive component in this and future test years "so long as such incentive component is based upon goals that benefit customers and the amounts payable [to employees] for achieving the goals are limited to reasonable 'target' or medium goals." *Id.* at ¶ 6(e). The parties further agreed to examine the Power Cost Adjustment (PCA) load-growth rate as part of the Company's PCA application in Case No. IPC-E-06-7. *Id.* at ¶ 6(d).

2. Rate Spread. To recover the agreed-upon \$18.1 million revenue requirement, the parties recommended a uniform percentage increase for each customer class (except Schedules

15 and 40) and the special contract customers of approximately 3.2%. *Id.* at ¶ 7. The parties also agreed that the underlying cost-of-service model filed by the Company in this proceeding “will not constitute precedent in any subsequent general rate case.” *Id.* The parties specifically recognize that any party’s failure to specifically object to the Company’s cost-of-service analysis in this case will not constitute a waiver in any future general rate case proceeding. *Id.*

3. Rate Design. With three exceptions, the parties agreed in the settlement Stipulation that the rate design proposals in the Company’s Application should be implemented, albeit with the smaller percentage increase. First, the monthly service charge for residential (Schedule 1) and small commercial (Schedule 7) customers will increase from \$3.30 per month to \$4.00 per month. Idaho Power further agreed to not file for an increase in the \$4.00 service charge for at least two years from the date of the Commission’s final Order in this matter. *Id.* at ¶ 8(a). Second, the parties stipulated that the average 3.2% increase for large commercial (Schedule 9) customers will first be spread upon the non-energy rate components and any residual revenue requirement will be spread upon the energy related rate components. *Id.* at ¶ 8(b).

Third, the parties agreed that implementation of the proposed \$10 “continuous service reversion” program⁴ described in the testimony of Company witness Timothy Tatum will be delayed for a period of 60 days from the date of the Commission’s final Order. The delay will allow landlords and property managers to be notified of the optional program prior to its actual implementation.

Idaho Power also agreed no later than November 1, 2006 to convene a working group to review the current operations and results of the Irrigation Peak Rewards program. The Stipulation provided that any proposed modifications to the program would be presented to the Company’s Energy Efficiency Advisory Group and ultimately to the Commission “in time for such modifications to be in effect for the 2007 irrigation season.” *Id.* at ¶ 10.

The parties assert the settlement Stipulation represents a compromise of their respective positions in this case. They urge the Commission to approve the Stipulation in its entirety. They maintain that the settlement Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable. Motion at 3.

⁴ This optional program allows landlords or property managers to have customer accounts automatically transferred to them when their tenants terminate electric service. Landlords and property managers subscribing to this optional service will be notified when the account reverts to them. Tatum Direct at 9-13.

THE TECHNICAL HEARING

The Commission held its technical hearing on April 11, 2006. As previously mentioned, all the parties except Kroger entered appearances. The Commission Staff, the Irrigators and the Company presented testimony in support of the settlement Stipulation.

1. The Staff. The Utilities Division Administrator, Randy Lobb, urged the Commission to adopt the Stipulation. He testified that the Staff had conducted a comprehensive audit of test year results and concluded that the proposed settlement “is in public interest and should be approved by the Commission.” Tr. at 43. He pointed out the agreed revenue requirement was \$26.9 million lower than that originally proposed by the Company. Tr. at 45. He asserted the \$18.1 million revenue requirement reasonably balanced the needs of the Company for more revenue while ensuring that ratepayers pay rates based upon reasonable costs. Tr. at 48.

Mr. Lobb explained that the parties could not agree that the methodology used in the Company’s cost of service studies properly allocated costs to the individual customer classes. Tr. at 55. Consequently, the parties agreed to spread the revenue requirement on a uniform basis to all customer classes except Schedules 15 and 40. *See* Staff Exhibit 102.

2. Idaho Irrigation Pumpers Association. The Irrigators filed a Motion to spread the testimony of their expert witness, Tony Yankel, without requiring him to travel to Boise. No party objected to the Motion, and it was granted. Mr. Yankel’s testimony supported the Stipulation.

3. Idaho Power. The Company’s Vice-President of Regulatory Affairs, John R. Gale, testified in support of the Stipulation. Mr. Gale stated that the Stipulation provides the Company with the ability to economically finance new investments in infrastructure in its system. He further stated that the Stipulation reflected a satisfactory perspective on the net power supply cost and overall rate of return. According to Mr. Gale, the Company believes that the compromised settlement produces the correct alignment of interests between ratepayers and shareholders.

THE PUBLIC COMMENTS AND TESTIMONY

Only one person testified at the public hearings and he did not oppose the proposed rate increase. The Commission also received about 50 written comments: 46 before the

settlement and 4 after the settlement. The four comments received after publication of the Commission's Notice of Settlement all opposed the 3.2% rate increase.

Of the 46 comments the Commission received before the settlement, approximately half opposed any increase. Eight of these customers indicated that they were on fixed incomes and it was unreasonable to increase rates. Seven other customers did not necessarily oppose the 7.8% increase but suggested the increase should be distributed primarily to larger users (irrigation or industrial customers) rather than residential customers. Twelve other customers acknowledged that a more moderate increase may be necessary. They urged the Commission to review whether such an increase should be spread to larger customers or be contingent on the Company acquiring more renewable resources.

DISCUSSION AND FINDINGS

At the outset, we note that this is the first instance in our recollection of settling an Idaho Power rate case. We appreciate that the parties were able to compromise and settle the disputed issues in this case. We commend them for their efforts.

Based upon our review of the Stipulation, the supporting testimony, and the public comments, we find that the terms of the Stipulation are fair, just and reasonable. Procedural Rules 274-276, IDAPA 31.01.01.274-276. The Stipulation represents a reasonable compromise of the positions held by the parties. We find it reasonable to authorize Idaho Power to increase its jurisdictional base rates to recover \$18.1 million in additional annual revenue based upon an overall rate of return of 8.1%. We also agree and adopt the system net power supply cost of \$45,279,800 and the 2005 system load in the amount of 14,819,152 MWh.

We further find that it is appropriate to increase most rates a uniform percentage increase of approximate 3.2% (except Schedules 15 and 40). In addition, the Commission accepts the three rate design exceptions dealing with the monthly service charge, the rates for Schedule 9 customers, and the 60-day delay before imposing the \$10 continuous service reversion charge.

We also order Idaho Power to convene a working group to examine the Irrigation Peak Rewards Program. If the working group and the Company's Energy Efficiency Advisory Group recommend improvements to the program, we urge Idaho Power to file such improvements in advance of the 2007 irrigation season.

INTERVENOR FUNDING

The Irrigators were the only party to file a Petition for Intervenor Funding. The Irrigators sought \$32,742 in intervenor funding. This amount comprises \$6,867 in legal fees (37.8 hours) and consulting fees in the amount of \$25,875 (207 hours x \$125/hr.). No party filed an objection to the Irrigators' Petition for Intervenor Funding.

Idaho Code § 61-617A sets out the standards for intervenor funding and allows the Commission to award up to \$40,000 in intervenor funding. To award intervenor funding, the Commission must find that: (1) the Irrigators materially contributed to the decision rendered by the Commission; (2) the costs of intervention are reasonable and that the costs represent a significant financial hardship for the Irrigators; (3) the advocacy of the Irrigators differed materially from the Commission Staff; and (4) the testimony and participation of the Irrigators addressed issues of concern to the general body of customers or a particular customer class. Rule 162, IDAPA 31.01.01.162.

In their Petition for Intervenor Funding, the Irrigators assert that they materially contributed in the case by serving discovery and participating in the settlement conferences. They also maintain that the expenses incurred are reasonable and that failure to recover the requested funds would work a financial hardship on them. Petition at 2-3. The Irrigators state that they have a balance in their bank account of \$11,599 and accounts payable exceeding \$50,000. Petition at 3. The Irrigators state that they rely solely upon dues and contributions voluntarily paid by members together with intervenor funding to participate in utility cases. *Id.* The Association only has one part-time employee "receiving a small retainer plus expenses for office space, office equipment and secretarial services. Officers and directors are elected annually and serve without compensation." *Id.* at 4. The Irrigators were proponents of forming a working group to examine Idaho Power's Irrigation Peak Rewards program. The Irrigators were also prepared to challenge the Company's cost allocation methodology, and in particular the apportionment of load growth between customer classes. *Id.* at 4-5.

Commission Findings

Based upon our review of the petition and the standards for awarding intervenor funding, we find that the Irrigators have met the standards necessary to obtain intervenor funding. As laid out in the Petition and in the testimony of Mr. Yankel, the Irrigators materially

contributed to the settlement and advocated issues different from the Commission Staff. Based upon our review of the billing statements, we find that the legal and consulting fees were reasonable and grant intervenor funding in the amount of \$32,742. We further find it reasonable for Idaho Power to recover the intervenor funding costs from the irrigation class of customers.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Idaho Power Company is an electric corporation subject to the Commission's regulation under the Idaho Public Utilities Law. *Idaho Code* § 61-129. The rates of all its tariff schedule customers in the State of Idaho and its contract customers are subject to this Commission's regulation.

The Company's present rates do not provide it with an opportunity to earn a fair and reasonable return on its investment. Allowing the Company to increase its rates and charges by \$18.1 million annually will provide it with the opportunity to earn a fair and reasonable return. The 2005 test year is the appropriate test year for use in this proceeding. The Company is authorized to earn an overall rate of return of 8.1%. The Stipulation is in the public interest.

We find the Company's system net power supply cost is \$45,279,800. We further find that the Company's 2005 system load in the amount 14,819,152 MWh is reasonable for setting rates.

The Commission finds that the average 3.2% rate increase for the customer classes and special contract customers (except for Schedules 15 and 40) is just and reasonable. The Commission further finds that the other rate design issues contained in the Stipulation are fair, just and reasonable.

Finally, the Commission awards intervenor funding in the amount of \$32,742 to the Irrigation Pumpers Association. These costs shall be recovered from the irrigation customer class.

ORDER

IT IS HEREBY ORDERED that the Motion for Approval of Stipulation is granted.

IT IS FURTHER ORDERED that Idaho Power is authorized an overall rate of return of 8.1%. As set out in the approved Stipulation, the Company is authorized to recover \$18.1 million in additional annual revenue.

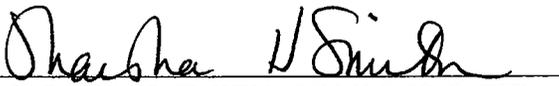
IT IS FURTHER ORDERED that the Company file new base rate schedules in conformance with this Order. The change in base rates shall be effective on June 1, 2006.

IT IS FURTHER ORDERED that the Idaho Irrigation Pumpers Association is awarded intervenor funding in the amount of \$32,742 to be recovered from customers in the irrigation class. Idaho Power is directed to pay this amount within 28 days of the date of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

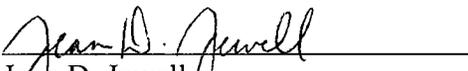
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th day of May 2006.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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