

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-11-24
AUTHORITY TO MODIFY ITS RULE H)
TARIFF RELATED TO THE GENERAL)
OVERHEAD RATE.) ORDER NO. 32472
_____)

On November 18, 2011, Idaho Power Company filed an Application with the Commission seeking authority to modify the general overhead rate it charges in the Company's Rule H tariff relating to new service attachments and distribution line installations and alterations. The Company requested that the Application be processed by Modified Procedure and that the proposed changes become effective on March 15, 2012.

On January 4, 2012, the Commission issued a Notice of Application/Notice of Modified Procedure and established comment deadlines. Order No. 32429. Staff was the only person or party to file comments. The Commission approves Idaho Power's Application to modify its Rule H general overhead rate as set out in greater detail in the body of this Order.

THE APPLICATION

The Company proposes to remove the 1.5% limitation for recovery of general overhead costs in the "Work Order Cost" definition of Rule H in an effort to shift more of the cost burden for new service attachments and distribution line installations or alterations from general ratepayers to customers requesting construction for these services. Application at 3. The Company states that, by removing the 1.5% limitation for recovery of general overhead costs and allowing the Company to recover the full construction overheads under Rule H, the Company will receive larger contributions in aid of construction (CIAC) to offset the costs of providing these construction services. The Company maintains that this will ultimately reduce the revenue requirement for general ratepayers and reduce additional upward pressure on rates. *Id.*

Specifically, the Company is proposing to recover all actual general overhead costs related to construction under Rule H from the party requesting the construction service. Idaho Power proposes to update this general overhead rate each time accounting adjustments (increases or decreases) are made to balance the Company's general overhead account. These updates would be automatically reflected in the Company's work order processing and accounting

systems. In addition, the Company proposes to file its effective general overhead rates in all future annual Rule H updates of charges and credits to allow the Commission the opportunity to scrutinize the effective rate charged on Rule H work orders.

The Company requests that the removal of the general overhead cap be approved by March 1, 2012, and become effective on March 15, 2012, to coincide with the effective date of the Company's annual update of its Rule H charges and credits.

COMMENTS

In Case No. IPC-E-95-18, a separate direct engineering fee was established. The Commission ordered a 1.5% cap on the overhead rate to avoid over-collecting for engineering fees. At that time, the Company applied a general overhead rate of 17% to the subtotal of all direct costs. Of the 17%, 15.5% covered construction engineering and supervision, 1.0% covered construction injuries and insurance and 0.5% covered construction accounting. (These numbers are based on information provided by the Property Accounting section of the Company during the course of the case.) The Commission ordered that actual overheads incurred above the 1.5% rate be reflected in plant in service and collected in rates from all customers. The issue of the correct amount for the general overhead rate to be applied to line extensions under Rule H was revisited in Case No. IPC-E-08-22. In that case, the Commission maintained the 1.5% cap on the general overhead rate under Rule H until the issue could be contemplated in the context of a general rate case. Order No. 30853.

Staff supports the Company's effort to include the full amount of general overheads in the calculation of the line extension tariff. It is appropriate for the Rule H customers, the cost causers, to pay more of the actual costs incurred to establish service. When customers do not pay the full cost for providing new service lines or altering existing distribution lines, the remaining cost is included in base rates paid by all customers. Consequently, base rates include costs that can and should be directly charged to and paid by the Rule H customer requesting the line extension and causing that cost to be incurred. Updating the amount that is included in overheads in the Rule H line extension tariff appropriately allocates these costs and helps minimize base rates in future rate case proceedings.

After review and audit, Staff confirmed that the direct engineering charges are not included in the general overhead rate. Staff determined that there will not be any over-collection of the engineering costs if the proposed general overhead rate is applied to the direct construction

costs. The Company includes in the overhead rate calculation items such as supervision, training, safety meetings, support and administrative staff expenses – common costs that cannot be directly assigned to individual capital projects. Consequently, Rule H customers currently pay direct engineering costs and 1.5% for common overhead costs.

The Company calculated the budgeted common overhead rate for 2011 as 22%. The overhead rate, using actual 2011 amounts is 21.5%. Staff recommended that the actual overhead rate, as calculated based on the most current year, be the overhead rate applied going forward. Therefore, under the Company’s proposal with Staff’s adjustment, Rule H customers will pay direct engineering costs and 21.5% for common overhead costs. Staff notes that although it may look like there is a large increase in the Company’s general overhead rate because the current common overhead rate charged to the Rule H customer was capped by this Commission at 1.5%, the Company’s actual overhead rate is being increased from 17% to 21.5%. Historically, 1.5% of the 17% has been paid for by the customer requesting the line extension and the remaining 15.5% of common overhead costs is borne by all ratepayers through base rates. Allowing the Company to charge the full overhead rate, currently 21.5% for 2011 based on actual results, will more appropriately directly assign amounts currently in base rates to the customer requesting the Rule H line extension.

The Company has requested to change the overhead rate throughout the year. The Company states in testimony that “General overhead rates for Rule H construction are evaluated monthly and updated as needed to balance the Company’s overhead account.” Staff noted that this would be the only component of the Rule H line extension tariff allowed to vary throughout the year, while the other items are adjusted yearly and only after Staff review and Commission approval. Therefore, Staff recommended that the overhead rate change no more frequently than annually at the same time as other Rule H updates.

FINDINGS AND CONCLUSIONS

Idaho Power is a public utility pursuant to *Idaho Code* §§ 61-119 and 61-129. The Commission has jurisdiction over this matter pursuant to Title 61 of the Idaho Code and the Commission’s Rules of Procedure, IDAPA 31.01.01.000 *et seq.* Based on our review of the Company’s Application, the comments of Commission Staff, and the history of Rule H overhead rates, we find that it is just and reasonable to allow Idaho Power to collect a general overhead rate of 21.5% relating to new service attachments and distribution line installations and

alterations under its Rule H tariff. This amount is based on the actual overhead rate calculated for 2011.

We further find it reasonable to direct Idaho Power to update its overhead rate annually, to be filed simultaneously with its other annual Rule H updates. *See* Order Nos. 30853 and 30955. We have repeatedly stated that customers requesting Rule H line extensions should bear the costs of those extensions. By requiring customers who request services to pay for the costs of those services, it relieves one area of upward pressure on rates.

ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power Company for authority to modify its Rule H (line extension) tariff related to the general overhead rate is approved. Idaho Power is authorized to collect a general overhead rate of 21.5% relating to new service attachments and distribution line installations and alterations under its Rule H tariff.

IT IS FURTHER ORDERED that Idaho Power file conforming tariffs no later than March 9, 2012.

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 28th
day of February 2012.



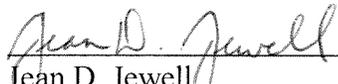
PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER

Out of the Office on This Date
MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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