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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32429 on January 4, 2012, in Case No. IPC-E-11-24, submits the following comments.

BACKGROUND

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 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.

STAFF ANALYSIS

In Case No. IPC-E-95-18 a separate direct engineering fee was established. The Commission Staff recommended, and the Commission ordered, to cap the overhead rate at 1.5% 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, based on information provided by the Property Accounting section of the Company during the course of the case. Actual overheads incurred above the 1.5% rate were 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 Order No. 30853, the Commission stated:

The Commission finds that customers requesting Rule H line extensions should bear the overhead costs of those extensions. However, we find that the appropriate calculations and adjustments are best made during the Company's next general rate case to ensure that rates are set based on costs

that do not include that portion of construction overhead belonging to Rule H work orders. Until then, we find that continuing the general overhead rate of 1.5% is fair, just and reasonable.

In the Company's next general rate case, Case No. IPC-E-11-08, the overhead rate issue was bifurcated from the general rate case as part of the stipulation and as approved by the Commission. The current filing addresses the issue of the appropriate calculation and adjustment to the overhead rate in the Company's Rule H line extension tariff.

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 causer, 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 directly charges these costs and helps minimize base rates in future rate case proceedings.

Commission Staff has reviewed the Application and supporting documents, including information received via audit request. Staff also met with Company personnel to review the Company's budgeted and actual overhead calculation for 2011.

The Company maintains that direct engineering costs are not included in the general overhead rate, but instead are captured through a separate engineering fee under Rule H. After review and audit, Staff has confirmed that the direct engineering charges are not included in the general overhead rate. Staff is satisfied 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 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 recommends 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

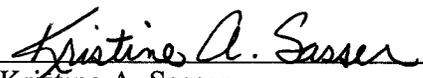
costs and 21.5% for common overhead costs. Staff notes that although it may look like there is a large increase in the Company's general overhead rate because the current common overhead rate charged to the Rule H customer has been capped at 1.5%, the Company's actual overhead rate is being increased 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." While Staff is aware of the rationale for adjusting the overhead rate during the year, Staff notes 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. Therefore, Staff recommends that the overhead rate may be changed no more frequently than annually at the same time as other Rule H updates.

RECOMMENDATIONS

- Staff recommends that the actual overhead rate for 2011 of 21.5% be used in place of the current 1.5% overhead rate.
- Staff further recommends that the overhead rate be changed no more frequently than annually at the same time as other Rule H updates.

Respectfully submitted this 9TH day of February 2012.



Kristine A. Sasser
Deputy Attorney General

Technical Staff: Kathy Stockton
Cathleen McHugh

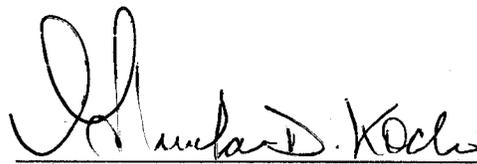
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9TH DAY OF FEBRUARY 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-11-24, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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