

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL
DEPUTY ATTORNEY GENERAL

DATE: MARCH 9, 2012

SUBJECT: IDAHO POWER'S APPLICATION TO INCREASE RATES TO RECOVER COSTS ASSOCIATED WITH THE COMPANY'S FERC TRANSMISSION RATE CASE, CASE NO. IPC-E-12-06

On February 15, 2012, Idaho Power Company filed an Application for authority to increase its rates to recover certain transmission costs associated with the Company's Federal Energy Regulatory Commission (FERC) rate case, FERC Docket No. ER06-787. In this Application, the Company seeks authority to amortize approximately \$2.064 million in the existing deferral account over three years. The Company calculates that recovery of this deferral account will increase its annual revenue requirement by \$688,156 for the three-year period. The Company asks that the amortization and rate changes for this case and the other three contemporary filings take effect on June 1, 2012.¹ The Company asks that this Application be processed using Modified Procedure. Rules 201-204, IDAPA 31.01.01.201-.204.

BACKGROUND

The historical background of the Company's FERC rate case and the establishment of the deferral account is set out in Order Nos. 30940 and 32177, but the pertinent parts are summarized here. In March 2006, Idaho Power filed an application with FERC requesting an increase in its transmission rates subject to FERC's jurisdiction. The Company proposed to revise

¹ In addition to this Application, the Company concurrently filed three other applications. See Case Nos. IPC-E-12-07, IPC-E-12-08, and IPC-E-12-09. The Company states these four applications cumulatively will result in a rate *decrease* for most customers. The cumulative proposed rate decrease by customer class is: Residential, Sch. 1, (0.80%); Small Business, Sch. 7, (0.55%); Large Business, Sch. 9, (1.07%); and Irrigation, Sch. 24, (1.09%). The cumulative proposed rate increase by customer class is: Industrial, Sch. 19, .65%; Micron, Sch. 16, .66%; Simplot, Sch. 29, .68%; INL, Sch. 30, .68%; and Hoku (Block 2), .67%. See Application, Atch. 3.

its Open Access Transmission Tariffs (OATTs) from “stated” rates to “formula” based rates. Formula rates would be updated annually based upon Idaho Power’s cost to own, operate and maintain its transmission facilities as reported annually in the Company’s FERC Form 1.

In the FERC proceeding, the parties were able to settle most of the issues but they were unable to resolve the proper ratemaking treatment of three “Legacy Agreements.” *Order on Initial Decision*, 126 FERC ¶ 16,044 at ¶ 11 (January 15, 2009). Starting in the 1960s, Idaho Power entered into three long-term transmission service contracts commonly referred to as the “Legacy Agreements” with PacifiCorp regarding transmission service from the Jim Bridger power plant in western Wyoming.² Both utilities built and now operate transmission lines from Bridger to their respective service territories. Under the terms of the Legacy Agreements, Idaho Power charges PacifiCorp “facility fees” to use Idaho Power’s transmission facilities until 2025. *Id.* at ¶¶ 3-9; Order No. 30940 at 2.

The federal Administrative Law Judge (ALJ) initially determined and FERC subsequently affirmed that Idaho Power’s fees charged to PacifiCorp under the Legacy Agreements were significantly lower than the OATTs rates Idaho Power proposed to charge other customers for similar transmission services. The ALJ and FERC found that it was unreasonable for Idaho Power to recover its transmission costs from other third-party transmission customers while the Legacy Agreements contained rates that were considered below cost. FERC found that Idaho Power must bear the under-recovery of transmission costs on its own. *Id.* at ¶ 129; Order No. 30940 at 2.

In response to FERC’s 2009 Order, Idaho Power took three actions. First, the Company filed a Petition for Rehearing with FERC.³ Second, Idaho Power moved to amend portions of the two Legacy Agreements which resulted in a reduction of about \$5.728 million in unrecovered transmission costs. *See* Order No. 32177 at 3-4; FERC Docket No. ER09-1335. Third, in July 2009, Idaho Power filed an application for an accounting order requesting that this Commission authorize the deferral of unrecovered transmission costs that were denied by FERC. In Order No. 30940, the Commission authorized the deferral of the unrecovered transmission-related revenues over a three-year amortization period with several conditions. The Commission found that no carrying charges should be authorized and that the Commission “specifically reserves the right to

² Idaho Power and PacifiCorp jointly own the Bridger facility.

³ On December 27, 2011, FERC denied rehearing and affirmed its Initial Decision. *See* Application Atch. 1, *Order Denying Rehearing*, 137 FERC ¶61,235 (Dec. 27, 2011).

determine in a future proceeding whether Idaho Power may appropriately recover the deferred amounts from Idaho customers.” Order No. 30940 at 6 (Case No. IPC-E-09-21).

In Case No. IPC-E-10-28, the Commission updated the deferral balance as \$2,064,469 to reflect the modification of the two Legacy Agreements (discussed above) and other approved adjustments. Order No. 32177 at 4, 7-8. The Commission further directed Idaho Power to advise the Commission when FERC has issued its order on rehearing so that the Commission could consider a starting date for the three-year amortization of the deferral balance. *Id.* at 9.⁴

THE CURRENT APPLICATION

Consistent with Order No. 32177, the Company now requests that it be allowed to begin amortization of the deferral account balance (\$2,064,469) over three years effective June 1, 2012. Application at ¶¶ 5, 7. Consequently, the Company requests that its annual revenue requirement be increased by \$688,156 per year for three years effective June 1, 2012. *Id.* Because the proposed increase in the annual revenue requirement from this case is relatively modest, the Company is proposing to increase only the energy charges of customer rates. *Id.* at ¶ 8. Idaho Power maintains that authorizing recovery of this amount will result in a “uniform percentage increase of 0.08 percent to all customer classes.” *Id.* When the proposed rate increase from this Application is combined with the rate requests in the other three cases, the Company maintains that the cumulative effect will result in an overall rate decrease. Atch. 3.⁵

Because this Application is being combined with three other applications, the Company did not file proposed tariff schedules with this Application. Instead, the Company filed a single set of proposed tariff schedules in the IPC-E-12-09 case specifying the cumulative effect of all applications. *Id.* at ¶ 9. Rule 121.01 requires that each application be accompanied by rate schedules showing the proposed changes in the tariff schedules.

STAFF RECOMMENDATION

Staff concurs that this case may be processed under Modified Procedure. Staff recommends a longer comment period with comments due April 19, 2012, and reply comments due April 27, 2012.

⁴ See note 3.

⁵ However, as indicated in Attachments 2 and 4, the proposed increases caused by this Application are not “uniform” to all customer classes. A more accurate description would be that the “overall average” rate increase of this Application alone is 0.08%. Again, the cumulative rate effect of the four concurrent applications by customer class is shown in Attachment 3 and footnote 1.

Staff also believes that based upon the reasoning contained in the Application that the Commission should waive its Rule 121.01 as provided for in Rule 13. Rule 13 provides that the Commission may allow deviation from its Rules when it “finds compliance with them is a practical, unnecessary or not in the public interest.” IDAPA 31.01.01.013.

Finally, Staff believes that the Company has erroneously described the proposed rate effects caused by this Application. As indicated in the textual customer notice (Attachment 4) and in Attachment 2 (showing the revenue effects from just this case), the rate and revenue effects in this case are not uniform to all customer classes. Application at ¶¶ 8, 17; Atch. 4, pp. 3, 6. Indeed, special contract customers and industrial customers on Schedule 19 will see an increase in their rates. However, Staff believes that the Press Release and Customer Notice accurately advise customers that “the net effect of these four filings varies depending on your rate schedule. However the result is a decrease for most customers.” See Atch. 4, pp. 5-6. In addition, the chart that accompanies both the Press Release and Customer Notices show the proposed non-uniform rate effects and the proposed net rate effects for most non-contract customers. Staff recommends that the Commission not include the “uniform” rate claim in its Notice of Application and serve the Notice on all parties to the last Idaho Power rate case. See attached pages from Attachment 4.

COMMISSION DECISION

Does the Commission agree that this case should be processed under Modified Procedure? Does the Commission also find that initial comments due April 19, 2012, and reply comments due April 27, 2012 are appropriate?

Does the Commission grant a waiver of its Rule 121.01 regarding the filing of tariff schedules with each application?

Should the Commission Secretary serve the Notice of Application on all parties to the last rate case?



Donald L. Howell, II
Deputy Attorney General

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NEWS RELEASE

Idaho Power Requests to Lower Rates for Most Customers

As part of Idaho Power's hard work to provide reliable, fair-priced electric service to its customers, the company has filed a request to reduce most customers' rates effective June 1.

BOISE, Idaho, Feb. 16, 2012 -- On Feb. 15, Idaho Power made four filings with the Idaho Public Utilities Commission (IPUC), the net effect of which is a proposed decrease to most customers' rates effective June 1. Idaho Power customers benefit from some of the lowest electricity rates in the nation.

Overall Impact

Idaho Power understands that multiple filings can be confusing for customers, and we want to help you understand what the result means to your bottom line. A summary of proposed changes to Idaho rates is shown below.

Revenue Impact By Class: Percentage Change from Current Billed Rates						
	Residential	Small General Service	Large General Service	Large Power	Irrigation	Overall Change
Depreciation Rate Change	0.31%	0.29%	0.32%	0.27%	0.32%	0.31%
Boardman Shutdown	0.18%	0.17%	0.19%	0.16%	0.19%	0.18%
Transmission Revenue Deferral Recovery	0.07%	0.05%	0.09%	0.11%	0.08%	0.08%
Non-AMI Meter Depreciation	(1.36%)	(1.07%)	(1.63%)	0.00%	(1.69%)	(1.22%)
Net Change	(0.80%)	(0.56%)	(1.03%)	0.54%	(1.10%)	(0.65%)

The net effect to customers of these four filings varies depending on your rate schedule. However the result is a decrease for most customers. The bill impact for an average Idaho

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Idaho Power Requests To Lower Customer Rates

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related to the plant shutdown and capital investments forecasted through the remaining life of the plant. These are not additional costs to customers, but ones that are being incurred earlier than we originally planned.

The proposed change equates to an overall increase of \$1,583,373, or 0.18 percent.

Transmission Revenue Deferral Recovery

Idaho Power's Open Access Transmission Tariff (OATT) defines the rates, terms and conditions of transmission services the company provides to wholesale customers per Federal Energy Regulatory Commission (FERC) regulations. An ongoing transmission case with the FERC had a significant impact on actual transmission revenues Idaho Power received from OATT customers, resulting in an overstatement of revenue credits given to Idaho customers from March 2008 through May 2010.

Idaho Power worked hard to successfully reduce the shortfall by more than \$6 million. We're now requesting IPUC approval to begin the three-year amortization of the remaining \$2,064,469 deferral.

We have requested an increase of \$688,156 in the annual revenue recovered from Idaho customers beginning on June 1, 2012, for service provided on and after that date. This is a uniform percentage increase of 0.08 percent to all customer classes.

Non-AMI Meter Depreciation

Idaho Power has applied to the IPUC for authority to decrease its base rates due to the removal of the accelerated depreciation expense associated with non-Advanced Metering Infrastructure (AMI) metering equipment (mechanical meters).

This equipment will be fully depreciated on May 31, 2012. As a result, Idaho Power proposes to decrease annual revenue recovered from residential, small business, irrigation, and metered lighting customer classes by \$10,551,216.

Idaho Power proposes a uniform percentage decrease of 1.22 percent to the above customers effective June 1, 2012, for service provided on and after that date.

Opportunities for Public Review

Idaho Power's filing is a proposal that is subject to public review and approval by the IPUC. Copies of the application are available to the public at the IPUC offices (472 W. Washington, Boise, ID), Idaho Power offices or on Idaho Power's website, www.idahopower.com or the IPUC

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We value your business and appreciate you taking the time to read this notice. Thank you.

Important Information About Idaho Power Rates

Additional Spring Filings

We do anticipate making additional filings this spring that, in combination with the proposed changes outlined in this notice, will have a net effect on rates. These are typical annual evaluations and will include the annual Fixed Cost Adjustment (FCA), Power Cost Adjustment (PCA) and Revenue Sharing Adjustment.

Why We Need to Change Rates

As a regulated utility, Idaho Power invests up front to serve customers and recovers the cost of the investment, along with a commission-authorized fair return, later. We also need to pay our expenses as they occur.

To provide power today and to plan for tomorrow, we must invest in our aging infrastructure and in new infrastructure. As we add new resources in the future, to meet growth in customer demand or reduced generation from coal facilities, power supply expenses and customer rates will be impacted.

Opportunities for Public Review

Idaho Power's filing is a proposal that is subject to public review and approval by the IPUC. Copies of the application are available to the public at the IPUC offices (472 W. Washington, Boise ID), Idaho Power offices or on Idaho Power's website, www.idahopower.com or the IPUC website, www.puc.idaho.gov. You can view additional, related materials, including frequently asked questions and a news release on the filing at www.idahopower.com/Rates.

We value your business and appreciate you taking the time to read this notice. Thank you.

Idaho Power's customers benefit from some of the lowest electricity

rates in the nation. Recent filings will result in a net decrease to those rates for most customers.

On Feb. 15, Idaho Power made four filings with the Idaho Public Utilities Commission (IPUC). The net effect of these proposals will have differing impacts on the rates paid by our customers, effective June 1, 2012, with most seeing a net decrease. Details on those filings are as follows.

Depreciation Rate Changes (an increase)

Idaho Power has requested authorization from the IPUC to institute revised depreciation rates in our Idaho jurisdiction for our existing electric facilities. Depreciation rates establish the amount of time over which Idaho Power recovers its investments in the electrical system through rates.

The last changes to Idaho Power's depreciation rates became effective August 1, 2008. The revised depreciation rates proposed to become effective June 1, 2012, are based on the results of a detailed depreciation study examining Idaho Power's existing electric facilities-in-service as of June 30, 2011.

We're proposing a uniform increase of \$2,656,213, or 0.31 percent for all customer classes. The change in depreciation rates and the corresponding customer rates would become effective June 1, 2012.



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Early Shutdown of

Boardman Coal Plant (an increase)

Idaho Power's operating partner has announced plans to shut down the coal-fired Boardman Power Plant in north-central Oregon in 2020. Idaho Power owns 10 percent of the facility.

In recognition of these plans, we are requesting an increase in customer rates effective June 1, 2012, resulting from the accelerated depreciation of the plant, decommissioning costs related to the plant shutdown and capital investments forecasted through the remaining life of the plant. These are not additional costs to customers, but ones that are being incurred earlier than we originally planned.

The proposed change equates to an overall increase of \$1,583,373 or 0.18 percent.

Transmission Revenue

Deferral Recovery (an increase)

Idaho Power's Open Access Transmission Tariff (OATT) defines the rates, terms and conditions of transmission services we provide to wholesale customers per Federal Energy Regulatory Commission (FERC) regulations. An ongoing transmission case with the FERC had a significant impact on actual transmission revenues Idaho Power received from OATT customers, resulting in an overstatement of revenue credits given to Idaho customers from March 2008 through May 2010.

Idaho Power worked hard to successfully reduce the shortfall by more than \$6 million. We're now requesting IPUC approval to begin the three-year amortization of the remaining \$2,064,469 deferral.

We have requested an increase of \$688,156 in the annual revenue recovered from Idaho customers beginning on June 1, 2012, for service provided on and after that date. This is a uniform percentage increase of 0.08 percent to all customer classes.

Non-AMI Meter Depreciation (a decrease)

Idaho Power has applied to the IPUC for authority to decrease its base rates due to the removal of the accelerated depreciation expense associated with non-Advanced Metering Infrastructure (AMI) metering equipment (mechanical meters).

This equipment will be fully depreciated on May 31, 2012. As a result, Idaho Power proposes to decrease annual revenue recovered from residential, small business, irrigation, and metered lighting customer classes by \$10,551,216.

Idaho Power proposes a uniform percentage decrease of 1.22 percent to the above customers effective June 1, 2012, for service provided on and after that date.

Overall Impact

(a decrease for most customers)

We understand that multiple filings can be confusing for customers, and we want to help you understand what the result means to your bottom line. A summary of proposed changes to Idaho rates is shown below.

The net effect to customers of these four filings varies depending on your rate schedule. However, the result is a decrease for most customers. The bill impact for an average Idaho Power residential customer in Idaho using 1,050 kilowatt-hours of energy a month will be a bill decrease of \$0.67 beginning June 1, 2012, if all proposals are approved as filed.

Revenue Impact By Class: Percentage Change from Current Billed Rates

	Residential	Small General Service	Large General Service	Large Power	Irrigation	Overall Change
Depreciation Base Change	0.31%	0.29%	-0.32%	-0.27%	0.12%	0.20%
Boardman Shutdown	0.18%	0.17%	0.13%	0.16%	0.19%	0.16%
Transmission Revenue Deferral Recovery	0.07%	0.05%	0.09%	0.11%	0.08%	0.08%
Non-AMI Meter Depreciation	(1.36%)	(1.07%)	(1.63%)	(0.70%)	(1.55%)	(1.22%)
Net Change	(0.80%)	(0.56%)	(1.05%)	(0.54%)	(1.10%)	(0.65%)