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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION TO INCREASE ITS ELECTRIC RATES TO RECOVER THE BOARDMAN BALANCING ACCOUNT

CASE NO. IPC-E-12-09

COMMENTS OF THE COMMISSION STAFF

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's February 15, 2012 Application for an Order authorizing the Company to increase its rates to begin recovery of the Boardman balancing account.

BACKGROUND

On February 15, 2012, Idaho Power applied to the Commission for an Order authorizing the Company to increase its rates to begin recovery of the Boardman balancing account.[1] The Company seeks to recover $1,583,373 in annual revenue, which the Company states results in an average increase of 0.19% to customers. The Company asks that the rate change take effect on June 1, 2012.

[1] The Company concurrently filed three other applications. *See* Case Nos. IPC-E-12-06, IPC-E-12-07, and IPC-E-12-08. The Company claims the four filings will cumulatively decrease rates for most customers. The Company describes the cumulative rate impact for the major customer classes as: Residential Schedule 1, (0.80%); Small General Schedule 7, (0.55%); Large General Schedule 9, (1.07%); Large Power Schedule 19, 0.65%; and Agricultural Irrigation Schedule 24, (1.09%). The Company says the rates for its Special Contract customers will cumulatively change as follows: Micron, 0.66%; Simplot and Department of Energy (INL), 0.68%; and Hoku Block 2, 0.67%. *See* Application, Atch.4.

The Company requests authorization to adjust customer rates to recover incremental annual costs related to the early retirement of the Boardman power plant. The Company's request implements the cost recovery approach for Boardman the Commission approved in Order No. 32457.

The Company includes the following costs in the balancing account: (1) the return associated with Boardman capital investments net of accumulated depreciation forecasted through the remaining life of the asset; (2) the accelerated depreciation associated with Boardman investments; (3) and the decommissioning costs related to the Boardman shutdown.

STAFF ANALYSIS

In accordance with Order No. 32457, the Boardman balancing account will smooth revenue requirement impacts of early plant retirement over the plant's remaining nine years of life. Using this balancing account method provides full recovery and guarantees the Company's return on equity for Boardman, which the Commission previously set at the Accumulated Deferred Investment Tax Credit trigger of 9.5%. This return is less than the authorized return on equity included in base rates, recognizing the lower risk associated with the Boardman balancing account and recovery mechanism.

The Company proposes using the jurisdictional separation study accepted in Idaho Power's last general rate case, Case No. IPC-E-11-08, to determine Idaho's share of the increase related to the Boardman balancing account. Staff has reviewed the calculation of the revenue requirement of $1,583,373 and agrees with the Company's calculation with one exception – the 10 percent contingency estimate included in the decommissioning costs. Staff believes that because the Company will update the estimates to actuals (see below), there is no need for the contingency. Therefore, Staff has removed $59,872 from the revenue requirement calculation on an Idaho basis. Pursuant to a Staff audit request, the Company calculated that the revenue requirement without the 10 percent contingency is $1,525,501.

The Company proposes to annually recalculate the levelized revenue requirement for Boardman by updating estimates to actuals as information is available, and tracking the forecast revenue collection against the actual revenue collection. The Company then would use this information to determine if it needs a rate adjustment. Staff agrees that an annual review of the calculation of the levelized revenue requirement, along with a review of all the components of the Boardman balancing account, is acceptable.

The Commission previously ordered the Company to file annual reports detailing all amounts booked to the Boardman balancing account. See Order No. 32457. The Company's report includes two exhibits/schedules and a narrative description of the actual investments at Boardman during the prior year and the reason for any changes in forecast investments. The Company's proposed Exhibit 3 would track the monthly differences between forecast revenue collection and actual revenue collection. The two exhibits and the narrative would comprise the Company's annual report for Boardman.

Staff views these Boardman annual reports as the initial review of prudency for the investments. Staff's comments in this case should not be construed as prudency approval for any investment or future expenses proposed by the Company. Prudency and audit reviews will be conducted during annual reviews at the time of the actual expense.

Staff also views the Boardman annual reports, along with the supporting documentation, as the starting point for the annual review of the Boardman balancing account. For that reason, Staff recommends that, when the Company files an annual report, the Company include as workpapers the exhibits in Excel format with all formulas intact. Besides the narrative document supplied by the Company, Staff expects that the Boardman annual report workpapers will include any and all source documents supporting the actual investments as well as any new cost estimates. Staff believes that a report will be incomplete if it lacks the workpapers to support the Company's calculations and conclusions.

Incremental Investments

The Company has capitalized planned future investments not currently in plant-in-service and included in the levelized cost calculation in the balancing account. Staff reviewed the Company's budget and grouped it into three categories: (1) emission and regulatory compliance; (2) maintenance; and (3) obsolescence and upgrades. A breakdown of the budget in nominal dollars is provided in the table below.

Cost Category	Investment	Percent
Emission Controls & Regulatory Compliance	$3,453,184	41%
Maintenance	$505,000	6%
Obsolescence & Upgrades	$4,495364	53%
Total	**$8,453,184**	**100%**

The Company targets 53 percent of its total investment for obsolescence and upgrades. Staff recognizes that some investments will be necessary due to lack of both spare parts and vendor support for current equipment and software; however, Staff believes the Company should actively engage its partners in determining need for upgrades and explore potential alternatives for minimizing cost, especially given the plant's short remaining life.

The Company targets forty-one percent of its budget for investments in emission controls. Most of these controls are necessary to meet federal Regional Haze Best Available Retrofit Technology (BART) rules, Oregon Utility Mercury rules, and federal Utility Maximum Achievable Control Technology (MACT) rules. Test results provided by the Company in response to information requests indicate proposed controls should meet emission limits for all three rules without additional investment. However, federal Coal Combustion Residual rules due later this year may require additional operational costs and investments not included in the Company's estimates. Staff believes these types of investments will be necessary to continue to operate the facility; however, Staff encourages the Company to engage its operating partners in scrutinizing the planned shut down date, especially if additional significant investment is needed. This is especially true since Idaho Power has indicated that "an earlier than 2020 closure date may have proven to be slightly more favorable to Idaho Power."[2]

Notably, $440,392 of the investment that was planned to be expended between January and May 2012, were not made. Consequently, that amount was excluded from the Company's levelized revenue requirement included in its proposed rates. If these expenses are realized as actual expenses, they will be trued-up during next year's annual review.

[2] See response to Production Request No. 2, IPC-E-11-18.

Decommissioning Cost

As mentioned above, Staff believes the 10 percent contingency should be removed from the Company's decommissioning cost estimate. Assuming this adjustment, Idaho Power's share of the decommissioning cost is estimated to be $6,095,800 (2020 dollars). Staff notes there potentially is a 59 percent increase in Idaho's share of decommissioning costs above current Company estimates related to the Company's assumptions for coal and coal ash disposal. Specifically, the Company assumes the Boardman ash field can be capped; however, the Company may have to haul ash to an approved landfill. This represents a $2.1 million (Idaho share – 2010 dollars) increase in ash field renovation cost above proposed estimates. More importantly, the Company believes there is a potential for an $800,000, (Idaho share – 2010 dollars) increase in the Company's estimate for disposing of remaining coal if the coal must be landfilled. Staff notes that any inclusion of cost to landfill remaining coal should be avoided through proper purchasing and end-of-life inventory control practices.

Revenue Allocation and Rate Design

Idaho Power allocates revenue and design rates using updated forecasted billing determinants for the period June 1, 2012 through May 31, 2013. These billing determinants are the most current information available for revenue allocation/rate design; however, they have not been thoroughly reviewed in a general rate case and approved by the Commission. Staff nevertheless accepts and recommends the use of the Company's proposed billing determinants here, just as it has previously done in comments filed in Case Nos. IPC-E-12-06 and IPC-E-12-07.

The Company requests that the incremental revenue requirement be spread to all customer classes as a uniform percent increase to all base rate components except customer service charges. Doing so will increase all non-service charge rates by 0.1986% and increase rates by an average 0.19%. As can be seen from Company Attachment 1, this revenue spread/rate design produces a near uniform percentage rate spread to all customer classes.

Staff accepts the Company's proposed methodology for revenue allocation/rate design. The application of this methodology to the incremental increase of $1,525,501, proposed by Staff, results in a 0.1914% increase to all non-service charge rates and an average rate increase of 0.181%. The results of this rate spread are shown on Attachment A.

Accounting Standards

The Company currently accounts for the estimated Boardman decommissioning costs as an Asset Retirement Obligation (ARO) under Accounting Standards Codification (ASC) 410. In accordance with Order No. 29414, Idaho Power records: (1) a regulatory asset for the cumulative financial statement impact resulting from the Company's implementation of ASC 410 (previously Statement of Financial Accounting Standards (SFAS) 143); and (2) the ongoing annual differences between the ASC 410 depreciation and accretion expenses and the annual depreciation expenses that are currently authorized by the Commission in depreciation rates and reclamation accruals.

Under the proposed ratemaking treatment for the Boardman decommissioning, the Company would begin collecting revenues to cover these ARO-related liabilities. In conjunction with the implementation of the proposed ratemaking treatment of the Boardman decommissioning, Idaho Power requests that the Boardman-related ARO balances be exempted from the deferral treatment under Order No. 29414. The Company proposes to cease deferring ongoing annual differences between the ASC 410 depreciation and accretion expenses and the annual depreciation expenses that are currently authorized by the Commission in depreciation rates and reclamation accruals. In addition, the Company proposes to begin amortizing the previously recorded regulatory asset balance related to the Boardman ARO. This will ensure that revenues collected to satisfy Boardman ARO liabilities are properly matched to the Boardman related ARO depreciation and accretion expense.

Staff agrees with the Company's proposal to exempt Boardman-related ARO balances from the ARO deferral treatment in Order No. 29414.

STAFF RECOMMENDATION

- Staff recommends that rates be implemented to recover the Boardman balancing account.
- Staff recommends that the incremental revenue requirement be increased by $1,525,501.
- Staff recommends the annual reports filed with the Commission include updated Company Exhibits 1 and 2 in Excel format with all formulas intact.
- Staff further recommends that the annual report workpapers include all the source documentation necessary to verify any and all calculations and conclusions in the narrative report and verify the calculations of and the amounts in the balancing account.

- Staff recommends that the prudency of any investment or future expenses be determined during the annual reviews at the time of the actual expense.
- Staff recommends approval of the revenue allocation/rate design methodology proposed by the Company. Applying that methodology to the Staff proposed increase of $1,525,501 produces an average increase over current rates of 0.181%.
- Staff recommends that the Boardman-related ARO balances be exempted from the deferral treatment under IPUC Order No. 29414.

Respectfully submitted this 3rd day of May 2012.

Karl T. Klein
Deputy Attorney General

Technical Staff: Keith Hessing
Kathy Stockton
Terri Carlock
Mike Louis

i:umisc/comments/ipce12.9kkkhklstcml comments

Idaho Power Company
Calculation of Revenue Impact
State of Idaho
Boardman
Proposed to be Effective June 1, 2012

Summary of Revenue Impact
Current Billed Revenue to Proposed Billed Revenue

Line No	Tariff Description	Rate Sch. No.	Average Number of Customers (1)	Normalized Energy (kWh) (1)	Current Billed Revenue	Cents Per kWh	Total Adjustments to Billed Revenue	Proposed Total Billed Revenue	Cents Per kWh	Percent Change Billed to Billed Revenue
	Uniform Tariff Rates:									
1	Residential Service	1	399,329	4,896,272,827	$397,700,569	8.123	$695,520	$398,396,089	8.137	0.17%
2	Master Metered Mobile Home Park	3	23	4,942,681	$381,220	7.713	$707	$381,927	7.727	0.19%
3	Residential Service Energy Watch	4	0	0	$0	0.000	$0	$0	0.000	0.00%
4	Residential Service Time-of-Day	5	0	0	$0	0.000	$0	$0	0.000	0.00%
5	Small General Service	7	28,165	144,888,296	$14,990,300	10.346	$24,670	$15,014,970	10.363	0.16%
6	Large General Service	9	31,614	3,480,101,459	$196,754,244	5.654	$363,590	$197,117,833	5.664	0.18%
7	Dusk to Dawn Lighting	15	0	6,481,376	$1,173,934	18.112	$2,228	$1,176,162	18.147	0.19%
8	Large Power Service	19	116	1,978,623,647	$83,660,290	4.228	$159,833	$83,820,122	4.236	0.19%
9	Agricultural Irrigation Service	24	16,642	1,720,204,410	$109,785,557	6.382	$206,019	$109,991,576	6.394	0.19%
10	Unmetered General Service	40	2,030	15,807,753	$1,096,245	6.935	$2,090	$1,098,334	6.948	0.19%
11	Street Lighting	41	361	23,165,568	$2,959,897	12.777	$5,610	$2,965,507	12.801	0.19%
12	Traffic Control Lighting	42	397	2,981,282	$142,887	4.793	$274	$143,161	4.802	0.19%
13	Total Uniform Tariffs		478,677	12,273,469,299	$808,645,142	6.589	$1,460,541	$810,105,682	6.600	0.18%
14	Special Contracts:									
15	Micron	26	1	451,138,622	$17,176,418	3.807	$33,051	$17,209,469	3.815	0.19%
16	J R Simplot	29	1	203,558,197	$6,727,934	3.305	$12,967	$6,740,900	3.312	0.19%
17	DOE	30	1	244,266,665	$8,393,976	3.436	$16,175	$8,410,151	3.443	0.19%
18	Hoku - Retail	32	1	0	$2,835,760	0.000	$2,767	$2,838,527	0.000	0.10%
19	Total Special Contracts		4	898,963,484	$35,134,087	3.908	$64,960	$35,199,048	3.916	0.18%
20	**Total Idaho Retail Sales**		**478,681**	**13,172,432,783**	**$843,779,229**	**6.406**	**$1,525,501**	**$845,304,730**	**6.417**	**0.181%**
21	Hoku - Block 1 Energy	32		109,702,243	$6,764,240	6.166	$0	$6,764,240	6.166	0.00%

(1) June 1, 2012 - May 31, 2013 Forecasted PCA Test Year (Hoku Adj)

Attachment A
Case No. IPC-E-12-09
Staff Comments
05/03/12

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 2ND DAY OF MAY 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-12-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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