Office of the Secretary
Service Date
June 29, 2012

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND ITS RATE BASE TO RECOVER ITS INVESTMENT IN THE LANGLEY GULCH POWER PLANT	)))))))	**CASE NO. IPC-E-12-14** **ORDER NO. 32585**

On March 2, 2012, Idaho Power Company filed an Application requesting that the Commission authorize the Company to increase its rate base and rates upon completion of the Langley Gulch power plant. Langley Gulch is a 330 MW natural gas-fired combined-cycle combustion turbine located near New Plymouth, Idaho. The Company proposed to increase its rate base by $390,942,172 and correspondingly increase its annual revenues by $59,869,823 effective July 1, 2012. Application at 2. The Company requested that the Application be processed via Modified Procedure.

On March 21, 2012, the Commission issued a Notice of Application and set a deadline for intervention. Order No. 32488. Petitions to intervene were filed by the Industrial Customers of Idaho Power (the "Industrial Customers" or "ICIP"); Micron Technology; and the Idaho Irrigation Pumpers Association (the "Irrigators" or "IIPA"). These parties were subsequently granted intervention. Order No. 32503. All the parties participated in an informal scheduling conference held on April 10, 2012. The parties agreed that this case could be processed via Modified Procedure and recommended a proposed schedule. On April 17, 2012, the Commission issued Order No. 32523 requesting that written initial comments be filed no later than May 30, 2012 and simultaneous reply comments be filed no later than June 13, 2012.

In response to the Commission's Notice, initial comments were filed by about 10 customers, ICIP, the Irrigators, Snake River Alliance (SRA), and Commission Staff. Idaho Power was the only party to file reply comments. As set out in greater detail below, the Commission partially grants Idaho Power's Application with new rates to be effective July 1, 2012.

BACKGROUND

A. The Prior Certificate Order

In August 2009, the Commission issued Order No. 30892 granting Idaho Power a Certificate of Public Convenience and Necessity (CPCN) authorizing the utility to construct and operate the Langley plant. In its Order, the Commission found that the present and future public interest required the construction of the Langley Gulch power plant. *Idaho Code* §§ 61-526, 61-528.

The Commission also found that Idaho Power had met the statutory requirements that allowed the utility to receive specific "ratemaking treatment" for the new plant as part of the CPCN process. In 2009, the Legislature enacted *Idaho Code* § 61-541, which allows the Commission to provide specific and binding ratemaking treatment when a public utility proposes to construct and operate an electric generation facility. In particular, CPCN Order No. 30892 authorized the Company to recover its capital investment in the Langley plant and related facilities "in the amount of $396,618,473 at such time as the plant is placed in commercial operation." Order No. 30892 at 46.

B. The Current Application

In prefiled testimony that accompanied the Application, the Company's Senior Vice President for Power Supply, Lisa Grow, said that construction of the water pipeline, water pump station, natural gas pipeline, metering station, and most of the ancillary transmission lines have been completed. Grow Direct at 9. She also declared that all necessary environmental permits for the plant have been obtained. *Id.* She concluded that she expected the Langley Gulch plant will be in commercial operation on or before July 1, 2012. *Id.* at 16.

1. Rate Base. Company witness Timothy Tatum maintained that Idaho Power will incur $398,133,778 of investment associated with the Langley plant by June 30, 2012. Tatum Direct at 5. However, the Company is only requesting authority to include $390,942,172 in rate base at this time. *Id.* at 6. Mr. Tatum explains that the Company already booked some of its Langley investment in the last rate case to acquire the plant site, water rights, and the necessary property for running the water supply line from the Snake River to the plant. Tatum Direct at 6.

The Idaho Power witnesses conceded that the Company's investment in the Langley plant was greater than the Commission-approved recovery amount of $396.62 million. In particular, Ms. Grow stated that the Company's total investment in Langley will be approximately $401.4 million or $4.8 million more than the Commission-approved amount. Grow Direct at 12, 15. She reported that like most large construction projects, some construction costs are greater than initial estimates and some costs are below initial estimates. For example, she stated the request for proposal (RFP) pricing costs were $5 million higher than the Commission-approved amount included in the $396 million. *Id.* at 13-14. In addition, actual transmission costs were $4 million above the Commission-approved amount. *Id.* at 15. Conversely, the costs for engineering/procurement, property taxes, AFUDC, and the gas turbine came in under budget. *Id.* at 12. She explained that one of the reasons for exceeding certain cost categories was that the Commission had only allowed 50% of some of Idaho Power's original construction estimates.[1]

2. Annual Revenues. Idaho Power requested that its annual revenues be increased by $59,869,823 to recover its capital investment in the Langley plant as well as recover other plant expenses such as depreciation, taxes, and operational costs. Application at 2. The Company proposed to recover this increased annual revenue requirement in customer rates by a uniform percentage increase of 7.18% to all customer classes (as measured from current rate base revenues), or a 7.1% increase in total current billed revenues. The Company submitted tariff schedules showing the proposed rate increases to the various customer classes. *See* Application, Atchs. 1 and 2.

Part of the requested rate increase is attributed to new depreciation rates and lives for the Langley plant and associated equipment. In depreciation Case No. IPC-E-12-08, the Company and other parties agreed to a settlement where the rates and lives for the Langley plant would be based on 35-year depreciable life. In Order No. 32559 issued May 31, 2012, the Commission approved the settlement including depreciation rates based on a 35-year life for the Langley plant. This change in depreciation expense attributable to Langley will be recovered in this case, IPC-E-12-14.[2]

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[1] In the CPCN Order No. 30892 the Commission adopted Staff's recommendation to separate cost categories between those estimated with greater certainty, and those based upon more uncertain estimates and contingencies. Consequently, the Commission declined to approve the Company's proposed "Commitment Estimate" of $427 million for approved recovery, and instead authorized ratemaking recovery of $396 million. Order No. 30892 at 39. Recovery of costs above the Commission-approved $396 million "are subject to a prudency review [before] Commission approval." Grow Direct at 13. *See also* Order No. 30892 at 39.

[2] Because the depreciation expense included in this Application was based upon a 30-year life for Langley, the depreciation expense (about $13 million) was overstated and must be revised. See Tatum Direct at 9; Staff Comments at 11.

INITIAL COMMENTS

As noted above, the Commission received comments from customers, the Industrial Customers, the Irrigators, SRA, and Staff. Most of the 11 customers opposed the rate increase associated with the Langley plant. Customers urged the Company to avoid the rate increase by cutting its costs. They were concerned that low-income or fixed-income customers would not be able to afford the proposed rate increases.

A. Industrial Customers

The Industrial Customers made several recommendations in their comments. First, they recommended Idaho Power not be allowed to recover any more than the $396.62 million amount that was preapproved by the Commission in the CPCN Order. ICIP Comments at 1. Any requested amount above that amount should be examined in the Company's next general rate case or in a proceeding "to determine the prudency and reason for the Company's expenditures above the preapproved level." *Id.* at 3.

Second, ICIP noted the addition of Langley Gulch to the Company's generation resources will "dramatically" change Idaho Power's resource stack. *Id.* at 5. The Industrial Customers calculated that Langley will be Idaho Power's least expensive unit on a variable cost basis. *Id.* at 6. Based upon the analysis of its expert, ICIP expects the need for generation from the Company's three coal plants to decrease by over 70%. In particular, the Industrial Customers estimated that output from the Valmy plant will drop by 97%, "making it virtually useless in providing service to Idaho Power's ratepayers." *Id.* at 5. Despite Langley's lowest cost, ICIP asserted that the proposed 7% rate increase is more than the Commission was lead to expect when the Company requested a CPCN for Langley in 2009. At that time, Idaho Power's policy witness estimated that Langley might result in net increase revenues by 3 or 4%. *Id.* at 6; *see also* Order No. 30892 at 31.

Third, the Industrial Customers asserted that the binding ratemaking treatment envisioned in *Idaho Code* § 61-541 has proven to be a "failed experiment in regulatory pre-approval." *Id.* at 2. In the prior CPCN case, ICIP argued that there were no compelling reasons for the Commission to grant special ratemaking treatment for the plant given the present and forecasted economic conditions. ICIP noted that Idaho Power's general business loads have declined by approximately 5.6% since the time that the CPCN Order was issued in 2009. *Id.* at 4. Thus, given an assurance for rate base recovery, Idaho Power had no incentive to delay or to postpone when Langley should be placed into service. ICIP urged the Commission to make clear that it will look upon future pre-approval requests with "great disfavor." *Id.*

B. The Irrigators

The Irrigators requested the Commission deny the requested rate increase and schedule a full rate case to examine how Langley Gulch will be integrated into the utility's operation. IIPA Comments at 1-2. The Irrigators maintained that the proposed 7.18% rate increase relates solely to the addition of the Langley investment into rate base and does not take into consideration other general rate case issues such as the $7.7 million net reduction in power supply expense. *Id.* at 2. In essence, adding Langley Gulch to the Company's rate base constitutes a single item rate case and processing this case via Modified Procedure is unreasonable. *Id.* at 3. The Irrigators argue that reviewing the proposed rate increase caused by the inclusion of Langley Gulch – in isolation from other cost issues – does not account for issues that may lower electric rates.

The Irrigators also noted that in the prior CPCN case, Idaho Power's witness suggested that Langley's added costs might be offset by other cost decreases. *Id.* at 4 *citing* CPCN Tr. at 220. In addition, they assert that using an "old" 2010 AURORA computer model run to incorporate the costs of Langley Gulch, gives a "very inaccurate view" of how Langley Gulch will operate with other generating resources now and in the future. *Id.* at 5. The Irrigators insisted the operating conditions of the utility's generating plants "are completely different [now] than they were in 2010." *Id.* Like ICIP, the Irrigators suggest that Langley will be cheaper for the Company to operate than any of its coal plants and that the Company's loads are lower than they were in 2010. *Id.*

The Irrigators also estimated that the Company's Valmy generating plant will only operate 3% of the time and this fact calls into question the future usefulness of the Valmy resource to Idaho Power. *Id.* at 6. The Irrigators insisted that Idaho Power has not taken power from Valmy since December 2011. *Id.* at 7. The Irrigators concluded by asserting that Langley "should not result in a 7.18% rate increase without a review of its impact on the system under today's conditions and the impact that Langley Gulch has on [Idaho Power's] entire resource stack." *Id.* at. 8. A general rate case proceeding would provide parties and the Commission with an opportunity to examine these issues and "produce a fair rate change for ratepayers." *Id.*

If the Commission is not inclined to deny the proposed rate increase, then the Irrigators requested that the Commission authorize no more than half of the rate increase (3.59%) now and require Idaho Power to file a general rate case. *Id.* This alternative will allow the Company to recover between 3 and 4%, and will allow the Commission and other interested parties an opportunity to examine the Company's 2012 costs in an evidentiary hearing. *Id.*

C. Snake River Alliance

SRA urged the Commission to deny the rate increase and ratebasing until such time as the Langley plant is used and useful. It was concerned that construction of the plant "was and continues to be ill-timed." Comments at 1. It argued that costs for new assets should not be prematurely shifted to customers "before the asset is operating." *Id.* at 2. SRA was also troubled by the prefiled testimony of Ms. Grow that the regulatory "assurance" embodied in *Idaho Code* § 61-541 constitutes a "binding commitment." *Id.* SRA maintained that the proposed rate increases will cause ratepayers to spend more of their household income "for a utility asset that is not yet operating." *Id.*

Although SRA recognized that the Commission has already granted a CPCN for Langley, it nevertheless felt compelled to point out that Idaho Power has ample energy supplies for the next several years. This is even more so with the absence of the Hoku special contract load and the recently reported collapse of the Micron-Transform Solar endeavor. *Id.* at 3. Thus, Idaho Power and its customers have a new Langley Gulch "generating asset for which the demand is, at best, tepid." *Id.* In addition, SRA observed that Idaho Power has not seen a record seasonal peak in more than three years (winter or summer). Consequently, SRA maintains that Idaho Power will be using Langley to increase its surplus off-system sales rather than meeting load. *Id.*

Finally, SRA pointed out that Idaho Power has filed many dockets in the recent 12 months that potentially impact rates. However, the proposed rate increases for Langley Gulch are not moderated or offset by these other cases. "The fact is, Langley represents an average increase in billed rates of 7.10 percent. . . ." *Id.* at 3-4.

D. Commission Staff

Staff performed a detailed review of the Company's Application and workpapers. This review included a comprehensive audit of actual and estimated plant and transmission expenditures. Staff analyzed the major contracts associated with the construction of the Langley plant including change orders, invoices, and other financial transactions to review their reasonableness, accuracy, and prudency. Staff Comments at 3. Staff calculated that the Company will spend a total of $401,416,574 for the Langley plant and associated transmission and facilities. This amount includes the $390,942,172 rate base request from this case; the $7,191,606 already included in rates during the last general rate case; and $3,282,796 in costs that will be incurred after June 30, 2012. The Company will likely seek recovery of these latter costs in a future rate case. *Id.*

Staff agreed with that the Company that the Langley Gulch investment has exceeded the Commission-approved estimate by approximately $4.8 million. *Id.* at 4. However, Staff was not surprised that a project of this magnitude would experience some cost categories above budget and other cost categories below budget. Overall, Staff calculated that the Company will finish its Langley Gulch project within 2% of the Commission-approved commitment estimate. *Id.*

Except as noted below, Staff determined that the investment and operating expenditures that exceeded their particular cost estimates were reasonable.[3] Based upon its review, Staff recommended four adjustments to the total investment costs of the project. These four adjustments are outlined below:

1. <u>Contingency Reserve</u>. Staff recommended that the Commission remove approximately $300,000 in reserve as a contingency to resolve potential issues after "June 30, 2012 for final acceptance of the gas and steam turbine not based on any contractual obligation." Staff recommended that these costs should be scrutinized in a future rate case. Comments at 5.

2. <u>RFP Development Cost</u>. Staff recommended that the Commission disallow the cost attributable to developing the Company's benchmark resource proposal in the amount of $251,894. Staff maintained that because none of these costs were originally included in the Company's commitment estimate, other bidders in the RFP process would be disadvantaged by adding these costs after it was determined that the Langley resource was the winning bid. Comments at 10.

3. <u>Transmission</u>. Staff recommended that $1,197,938 related to the cost differential of the Langley to Wagner line from 138 kV to 230 kV should not be included in rate base. Staff stated that the Company acknowledged that the upgrade of this transmission line was not required for the

[3] These cost categories include: plant site property, permitting, water and gas lines construction, miscellaneous equipment, and engineering.

operation of the Langley Gulch plant. Consequently, Staff recommended that these costs be placed in the plant held for future use account. Comments at 10-11.

4. Fiber Cable. Staff recommended removing $75,000 in costs for splicing of fiber optic cable that will not be incurred until after June 30, 2012. Comments at 11.

See generally Staff Comments at 5. Given the sum of the adjustments above, Staff maintained that the total estimated project investment should be reduced by $1,449,832 (from $401,416,574 to $399,966,742) and the total amount of investment allowed for recovery in this case be reduced by $1,524,832 (from $390,942,172 to $389,417,340). *Id.*

Staff next calculated the impact of the recent settlement of Idaho Power's depreciation case (including adjusting the estimated life span for the Langley Gulch plant from 30 years to 35 years). Staff calculated the effect of this depreciation adjustment is a reduction in the recommended revenue requirement of $1,561,305. Staff Comments at 11. Staff's adjustments to revenue requirement are shown in its Attachment B. Based upon Staff's transmission adjustment, RFP cost adjustment and out-of-period adjustments, Staff recommended that the annual revenue requirement be reduced to $58,105,578 on an Idaho jurisdictional basis. This results in a net reduction from the Company's requested revenue requirement of $1.764 million. Staff Comments at 13, 18; Atch. B.

Staff also recommended two other adjustments in this case. First, Staff recommended that the Company cease accruing allowance for funds used during construction ("AFUDC") on all costs in this case. "AFUDC is an accounting mechanism which recognizes capital costs associated with financing construction. Generally, the capital costs recognized by AFUDC include interest charges on borrowed funds and the cost of equity funds used by a utility for . . . construction. AFUDC represents the cost of funds used during the construction period before plant goes into service." *Id.* at 12. The elimination of AFUDC costs will prevent the over recovery of costs in this case.

Second, Staff also updated its calculation for the impact of the Langley Gulch plant on the load change adjustment rate (LCAR). Staff reviewed the LCAR calculations prepared by the Company and agreed that the LCAR should be reduced from $18.16/MWh to $17.64/MWh as shown in Company Exhibit 4. Staff recommended that the LCAR be updated to this amount when new rates become effective on July 1, 2012. *Id.* at 19.

Given Staff's rate base and revenue adjustments, it recommended that the annual revenue requirement associated with adding the Langley plant to rate base be $58,105,578. *Id.* at 18. Staff recommended that the increase become effective on July 1, 2012 (or at such time as the plant becomes operational), and be spread to each customer class as an equal percent increase based upon June 1, 2012, base revenues. This produces an overall billed revenue increase of 6.97%. *Id.*, Atch. C.

REPLY COMMENTS

Idaho Power submitted timely reply comments and addressed various issues raised by the parties in their initial comments. The utility observed that the Commission, in September 2009, found that the public convenience and necessity required the construction of the Langley plant. Consequently, the Commission authorized the Company to recover its rate base investment in Langley Gulch in the amount of $396,618,473 when the plant is placed into commercial operation. Order No. 30892 at 46. The Company asserted that "*this* proceeding . . . provides the Company the opportunity to justify any costs above [the preapproved amount] as prudent. . . ." Idaho Power Comments at 11 (emphasis original).

A. Rate Base Issues

The Company insisted that it exercised "exceptional management oversight" of the plant's construction because the total investment only exceeded the "preapproved amount (the soft cap) . . . by $4.8 million, or 1.2 percent." *Id.* at 14. Thus, "the total project investment is $26 million, or 6.1 percent, less than the Company's originally filed estimate [of $427.36 million] and approximately $120 million, or 23.2 percent, less than that of the next closest [bidder's] combined-cycle project. . . ." *Id.*

Idaho Power's reply comments specifically addressed two of Staff's recommended adjustments regarding the RFP expenses and the Langley to Wagner transmission upgrade. The Company agrees that Staff correctly quantified the $251,894 as "RFP team expenses." Staff Comments at 5, Idaho Power Comments at 6. However, Idaho Power asserted that the RFP team expenses were not associated with the development of the Company's benchmark resource. *Id.* at 6. Instead, the Company maintained that these expenses were cost incurred for the evaluation of *all* RFP [bid] responses." *Id.* Consequently, the Commission should find that these costs are necessary and appropriate, and should be included in rate base.

Idaho Power also opposed Staff's partial rate base adjustment of $1,197,938 reflecting the incremental cost differential from 138 kilovolt (kV) to 230 kV in the Langley to Wagner transmission line. Staff did not object to upgrading this line to 138 kV but opposed the incremental costs to improve the line to 230 kV. The Company maintained that adding the additional capacity above the 138 kV level at a later time would cost approximately $11 million in today's dollars. *Id.* Idaho Power insisted that adding the additional capacity to 230 kV "was the most economical construction configuration based upon a long-term view of the system operations." *Id.* Moreover, because the line is on federal lands, BLM permitting in the future becomes "increasingly more difficult and costly" due to the concern about the endangered plants in the area. A future rebuild of this line from 138 kV to 230 kV would present additional cost risks not included in the $11 million estimate. If the Company had only constructed the line to 138 kV capacity, the reconstruction period would take approximately six months and the reliability of the Langley plant would be reduced during this time. *Id.* at 5.

While Idaho Power is sensitive to the impact of incremental investments, the Company declared that the additional $1.2 million transmission investment best serves the interest of customers in the long-term. *Id.* Approving this amount "would send a clear message that [the Commission] is supportive of the Company's efforts to minimize costs for customers in the long-term. . . ." *Id.* The Company concluded that allowing it to recover this cost now is consistent with the State's 2012 Energy Plan which encourages "a stable, robust, reliable transmission system in order to provide reliable low-cost energy to Idaho customers and facilitate renewable generation." *Id.* at 5-6 *citing* 2012 Idaho Energy Plan at 120. In summary, the Company requested that the Commission approve recovery of the rate base investment of $390,942,172. *Id.* at 26.

B. Other Issues

1. <u>Declining Load</u>. Idaho Power rejected ICIP's criticism of the utility's decision "to move forward with Langley [despite] declining loads." ICIP Comments at 4. The Industrial Customers alleged that the Company's overall load declined by about 810,000 MWh, or 5.6% since the CPCN Order was issued in September 2009 and 2011. *Id.* However, Idaho Power maintained that loads between 2009 and 2011 only declined 1.5%. Idaho Power Reply at 16. Idaho Power insists that ICIP miscalculated the decline in load by comparing <u>2008 sales</u> instead of utilizing the May 2009 load forecast presented in the prior CPCN docket. *Id.*

In addition, Idaho Power asserted that the Integrated Resource Plan (IRP) process is the more appropriate forum to evaluate changing loads and resources. The Company stated that its 2011 IRP takes into account the load reduction attributable to Hoku Materials and increased generation due to more PURPA contracts. *Id.* at 17. Without the Langley plant, the Company declared that its 2011 IRP peak-hour load and resource balance shows load deficits of 28 MW in July 2012, 169 MW in July 2013, and 224 MW in July 2014. *Id.* (emphasis added). When the Langley plant is not needed to meet these load deficits, Langley may be used to generate surplus sales and such sales revenue will flow back to customers through the annual Power Cost Adjustment (PCA) filing. *Id.*

2. Impact on other Resources. Idaho Power took exception with the Irrigators' and Industrial Customers' arguments when Langley comes on line, output from the Valmy plant may not be needed. Idaho Power disputed this contention for several reasons. First, the Company noted that the AURORA model simulation relied upon by the Irrigators replaced only the gas price inputs, while holding all other modeling input the same. The Company conceded that simply changing fuel costs for only one generating resource changes the "economic dispatch of the Company's generation resource fleet." *Id.* at 7. The Company maintained that the IRP process is the appropriate forum to address the deployment of resources. *Id.* at 7.

Second, the Irrigators' use of the one AURORA run was flawed because it was based upon an analysis that utilizes normalized water and weather conditions. *Id.* at 8. Idaho Power asserted the appropriate approach to resource planning (one that has been accepted by the Commission in past IRPs) is to determine resource need based upon "lower than normal stream flows and higher than normal load conditions represented by 70th percentile water and 70th percentile load conditions for average monthly load/energy (average megawatts), and [using] 90th percentile for water and 95th percentile for load for peak-hour capacity (MW)." *Id.* (emphasis added). The Company declared these higher IRP parameters are more prudent than using the 50th percentile water and 50th percentile loads.

Even using the 50th percentiles water and load scenario, Idaho Power stated that annual utilization of Valmy "is not expected to differ dramatically from its past operations." *Id.* at 9. Valmy's capacity factor is even higher when using the 70th percentile water and load criteria. *Id.* at 9. When using the critical 90th percentile for water and 95th percentile for load scenario, Idaho Power's 2011 IRP assumes that Valmy is available and at full capacity during the summer peaking months regardless of how much energy the plant produces on an annual basis. *Id.* at 10.

Third, the Company submitted that both it and Staff agree that the Company correctly determined the change in net power supply expense (NPSE) associated with the addition of Langley. The Company noted that the Commission has already examined and approved all the input to determine the current base level NPSE and the Company believes that changing these inputs "unduly expand[s] the issues in this case beyond the issue of Langley." *Id.* at 10. The Company asserted that the risk of delaying Langley's operational date far exceeded the financial consequences of bringing the plant on as planned. Idaho Power stated its "actions were and are continually informed by its statutory obligation to provide and maintain adequate, reliable, and efficient electric service. *Idaho Code* § 61-302." *Id.* at 15.

3. Langley Benefits. In addition to serving summer loads, Idaho Power insisted that the Langley plant will promote system reliability, will be an extremely efficient generator given historic low gas prices, and will improve system performance following system disturbances. *Id.* at 17-22. In particular, the Company maintained that Langley has already provided power stabilization to the western part of Idaho Power's system. When a wind storm swept through southern Idaho on June 4, 2012, it heavily damaged electric facilities in parts of the Company's service area. While the Langley plant was running for test purposes, it was dispatched to help "maintain load balances on the western side of [Idaho Power's] system." *Id.* at 19.

The Company said Langley will provide Idaho Power customers with increased benefits as a base load plant once it begins commercial operation. "Langley's capacity is expected to alleviate reliance on power purchases over non-firm transmission paths during peak demand periods like those experienced during the summer of 2011." *Id.* at 20. For example, during system load peaks in July and August 2011, Idaho Power was importing up to 132 MW over non-firm transmission paths from the Pacific Northwest. The availability of Langley will significantly reduce the Company's reliance on purchased power. *Id.* The Company also insisted that Langley's ability to ramp-up generation quickly from 60% to 100% of its capacity will provide greater flexibility and dispatchability by providing the power system with approximately 100 MW of intra-hour dynamic capacity. *Id.*

4. Ratemaking Treatment. Idaho Power took exception to the Industrial Customers' recommendation that the Commission avoid using the binding ratemaking treatment embodied in

Idaho Code § 61-541 in future cases. Idaho Power argued that the preapproved rate base treatment in this case "was necessary to facilitate the financing of Langley." *Id.* at 12. The Company maintained that sufficient capital "could not be internally generated given the state of the capital markets in 2009 and the additional $220 to $295 million of annual infrastructure investment Idaho Power anticipated [making] between 2009 and 2011." *Id.*

The Company conceded that the ratemaking assurance of Section 61-541 "did not absolve Idaho Power of exercising managerial oversight over the project." *Id.* As noted above, Idaho Power observed that the Langley investment only exceeded the preapproved amount by 1.2%. *Id.* at 14. Of the $396.6 million preapproved amount, about $188 million was committed for the combined-cycle plant, real estate, and water rights purchases. Moreover, the Company provided the Commission with quarterly progress reports showing construction progress, cost information, and changes to construction schedule as required by Order No. 30892. *Id.* at 12. Consequently, the ratemaking treatment provided in Section 61-541 was not a failure in this case. *Id.* at 13.

DISCUSSION AND FINDINGS

1. Use of Modified Procedure. We first take up the Irrigators' recommendation to deny this Application and schedule a general rate case to examine rate base and revenue issues for the Langley plant. In the alternative, the Irrigators urged the Commission to grant only half of the requested revenue increase and compel the Company to file a general rate case. We decline these invitations for two reasons.

First, we find that the Irrigators agreed at the informal scheduling conference with the other parties to process this case by Modified Procedure. Indeed, in our Notice of Modified Procedure, we stated that the "parties agreed that this case could be processed via Modified Procedure. . . ." Order No. 32523 at 1. The magnitude of the addition to rate base and the proposed rate increase was cited in the Application and was known to the Irrigators at that time. If the Irrigators did not believe that Modified Procedure was appropriate for processing this case, it should have advised the Commission before we issued our Scheduling Order.

Second, granting only half the proposed increase as the Irrigators suggest in their alternative, undermines our CPCN Order No. 30892 and is inconsistent with *Idaho Code* § 61-541. In our CPCN Order No. 30892, we found that the public convenience and necessity required Idaho Power to construct and operate the Langley plant. That Order also approved a specific "ratemaking treatment" that allowed the utility to recover $396.6 million pursuant to Section 61-541 when the "plant is placed in commercial operation." Order No. 30892 at 46. The Company asserts that the plant will be in operation on or before July 1, 2012. We find that limiting the Company to half of the proposed rate increase is inconsistent with our CPCN Order. Moreover, the Irrigators have failed to adequately demonstrate that Idaho Power should not be allowed to rate base its Langley investment.

2. Staff Adjustments and Recommendations. We next turn to the four adjustments proposed by Staff and its two recommendations regarding AFUDC and the reduction in the LCAR. Idaho Power apparently opposed all four adjustments but offered no rebuttal comments regarding Staff's recommendations to defer recovery of the $300,000 in contingency reserve and the $75,000 in costs for splicing fiber optic cable. Staff argued that because these two issues will not be resolved until after July 1, 2012, any recovery in rates should be deferred. We find that it is appropriate to remove the $300,000 in the contingency reserve and the $75,000 splicing cost from recovery until such time as the Company demonstrates that these investments have actually been incurred and are prudent.

The Company also objected to Staff's proposal to remove $251,849 attributable to the RFP team expense. Based upon our review of the comments, we find that this investment should not be included in the Company's rate base at this time. We find that Idaho Power has failed to make a convincing case demonstrating that these expenses were incurred to review all the RFP responses. Consequently, these costs should not be recovered in this case with the Langley plant investment.

We next examine Staff's proposal to defer recovery of $1,197,938 in transmission costs from the Langley investment in this case. Staff did not object to the construction of the 138 kV Langley to Wagner transmission line but opposed the incremental cost to increase the line's capacity to 230 kV. Staff maintained that this amount should be excluded from rate base at this time because the Company plans to operate the transmission line at the 138 kV level in the near-term. Staff Comments at 5, 10-11. For its part, the Company noted that 138 kV capacity will "be fully utilized to integrate Langley into the Company's electric system." Idaho Power Reply at 3. Based upon our review of the comments, we find that this amount should not be placed into rate base at this time because the incremental cost difference between the 138 kV and the 230 kV capacity is not associated with the near-term operation of the Langley plant. This investment is associated with the future generation and transmission needs of the Company. In other words, the excess capacity in this line is not directly associated with bringing the Langley plant on-line and will not be used and useful on July 1, 2012.

We recognize and support the efficiencies of adding capacity to this transmission line during initial construction. However, that does not justify its inclusion in rate base as part of the Langley project. When this portion of the line provides service to Idaho ratepayers, the Company may then seek to include this amount in rate base. We are not disallowing this investment but merely deferring it until a future time. This case is for Langley costs only.

Turning to the two recommendations, we find that it is appropriate to halt AFUDC as of July 1, 2012. Likewise, LCAR should be reduced from $18.16/MWh to $17.64/MWh.[4]

3. Loads and Generation. We next turn to the Irrigators and the Industrial Customers' arguments regarding the consequences of integrating the Langley plant with the Company's other generating units. Based upon our review of the comments, we find that the Industrial Customers' assertion that loads have decreased by about 5.6% between 2009 and 2011 to be unpersuasive. As pointed out in its reply comments, the Company updated its load forecast in May 2009 in the CPCN case. The difference between the May 2009 load forecast and 2011 loads is a decline of 1.5%.

The Irrigators and Industrial Customers also question the operation and costs of other generating units based upon their estimate that Langley will become the Company's least-cost thermal plant due to historically low natural gas prices. ICIP at 6; IIPA at 5. Given Langley's least-cost profile, undoubtedly there will be changes in the operations of the Company's generation fleet. We also have no doubt that putting Langley Gulch into operation will alter the historic dispatch order and short-term cost-effectiveness of all of the Company's other resources including its irrigation load control program. However, those are not issues for this case. As we said in our CPCN Order, once the Langley plant became operational, the Company will be allowed to rate base its reasonable and prudent investment in Langley. Order No. 30892. That is the purpose of this case.

4. Ratemaking Treatment. We finally turn to the Industrial Customers' allegation that the ratemaking treatment afforded Idaho Power in the CPCN Order was unreasonable and

[4] The Company submitted revised proposed tariff schedules incorporating Staff's rate design. We have reviewed these schedules and find that they conform to our decisions in this Order. We approve them effective July 1, 2012.

the Commission should avoid adopting such ratemaking treatment in future cases. We do not share ICIP's view for two reasons. First, the preapproved amount of $396.6 million was necessary to facilitate the Company's financing of the Langley plant. Recovery of the preapproved amount was intended to assist the Company in obtaining the necessary capital to finance the construction of the plant. Order No. 30892 at 39. This comports with the purpose of *Idaho Code* § 61-541 to facilitate the acquisition and construction of major generation or transmission facilities while balancing the interests of the utility and ratepayers.

Second, we note that Langley's investment is treated like other plant investment because it receives the same rate of return. The rate of return for the Langley investment is the same as any other capital asset of the Company. *Id.* The utility requesting special ratemaking treatment carries the burden of showing such treatment is necessary. The Commission carefully balanced the interests of the utility and ratepayers. Moreover, we reduced the requested rate base commitment by $26 million to protect the ratepayers. The Commission is not afforded the use of hindsight to judge the reasonableness of issuing the CPCN to Langley three years ago. However, it is interesting to note that ICIP argued in the prior CPCN case that Langley would be an expensive plant to operate but now maintains that Langley "will be Idaho Power's least expensive unit, on a variable cost basis." ICIP Comments at 6. In retrospect, the current historic low natural gas prices makes Langley a low-cost generating resource. Consequently, we will retain the option in future suitable cases to carefully consider adopting the ratemaking treatments available pursuant to *Idaho Code* § 61-541.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Idaho Power Company is an electric utility subject to the Commission's regulation under the Public Utilities Law, *Idaho Code* §§ 61-119, 61-129. The Company's rates, charges and contracts for electric service in the State of Idaho are subject to the Commission's jurisdiction.

Based upon the record, we find it reasonable to increase the Company's rate base by $389,417,340 upon the completion and operation of the Langley Gulch power plant.

We further find that the incremental revenue requirement associated with adding the Langley Gulch power plant to base rates results in an annual increase in revenues of $58,105,578. When this revenue is spread to each customer class on an equal percentage increase based on June 1, 2012 billed revenues (excluding monthly service charges), it results in an overall average rate increase of 6.83%. See Attachment A. The Commission finds that the rate design approved in this Order results in rates that are fair, just and reasonable.

O R D E R

IT IS HEREBY ORDERED that Idaho Power Company's Application to increase its rate base and customers rates upon completion of the Langley Gulch power plant is granted as modified above. The Company may increase its rate base to recover its Langley investment in this case in the amount of $389,417,340.

IT IS FURTHER ORDERED that the Company may increase its annual revenue requirement associated with the addition of the Langley Gulch power plant in the amount of $58,105,578.

IT IS FURTHER ORDERED that Idaho Power cease accruing AFUDC on all Langley plant costs that are included in rates effective July 1, 2012.

IT IS FURTHER ORDERED that the Company's LCAR be updated to $17.64 per megawatt hour effective July 1, 2012.

IT IS FURTHER ORDERED that the annual revenue increase be spread to each customer class on an equal percentage based upon June 1, 2012 base revenues to be effective July 1, 2012, if the facility is in commercial operation at that time.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-12-14 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. 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 29th day of June 2012.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

bls/O:IPC-E-12-14_dh3

ATTACHMENT A
Case No. IPC-E-12-14
Order No. 32585

Idaho Power Company
Calculation of Revenue Impact
State of Idaho
Langley Gulch
Effective July 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	$396,370,005	8.095	$26,989,202	$423,359,207	8.647	6.81%
2	Master Metered Mobile Home Park	3	23	4,942,681	$380,540	7.699	$25,816	$406,356	8.221	6.78%
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	$14,828,014	10.234	$1,018,600	$15,846,614	10.937	6.87%
6	Large General Service	9	31,614	3,480,101,459	$198,931,744	5.716	$13,659,032	$212,590,776	6.109	6.87%
7	Dusk to Dawn Lighting	15	0	6,481,376	$1,149,085	17.729	$82,199	$1,231,284	18.997	7.15%
8	Large Power Service	19	116	1,978,623,647	$87,988,114	4.447	$5,930,129	$93,918,243	4.747	6.74%
9	Agricultural Irrigation Service	24	16,642	1,720,204,410	$110,087,189	6.400	$7,609,422	$117,696,611	6.842	6.91%
10	Unmetered General Service	40	2,030	15,807,753	$1,112,233	7.036	$77,222	$1,189,455	7.525	6.94%
11	Street Lighting	41	361	23,165,568	$2,922,040	12.614	$207,392	$3,129,432	13.509	7.10%
12	Traffic Control Lighting	42	397	2,981,282	$145,477	4.880	$9,883	$155,360	5.211	6.79%
13	Total Uniform Tariffs		478,677	12,273,469,299	$813,914,441	6.631	$55,608,898	$869,523,339	7.085	6.83%
14	Special Contracts:									
15	Micron	26	1	451,138,622	$18,255,470	4.047	$1,220,372	$19,475,842	4.317	6.68%
16	J R Simplot	29	1	203,558,197	$7,252,923	3.563	$478,881	$7,731,804	3.798	6.60%
17	DOE	30	1	244,266,665	$9,014,556	3.690	$597,340	$9,611,896	3.935	6.63%
18	Hoku - Retail	32	1	0	$2,836,120	0.000	$200,087	$3,036,207	0.000	7.05%
19	Total Special Contracts		4	898,963,484	$37,359,069	4.156	$2,496,680	$39,855,749	4.434	6.68%
20	**Total Idaho Retail Sales**		**478,681**	**13,172,432,783**	**$851,273,510**	**6.463**	**$58,105,578**	**$909,379,088**	**6.904**	**6.83%**
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)