

DECISION MEMORANDUM

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

**FROM: KARL T. KLEIN
DEPUTY ATTORNEY GENERAL**

DATE: JUNE 21, 2011

**SUBJECT: CAPITOL WATER'S APPLICATION TO REVISE ITS PURCHASED
POWER COST ADJUSTMENT RATE, CASE NO. CAP-W-11-01**

On June 6, 2011, Capitol Water Corporation applied to the Commission for authority to change its Schedule No. 3 Purchased Power Cost Adjustment (PPCA). *Application* at 1. Capitol Water seeks to recover its increased electrical costs arising from Commission-approved changes to Idaho Power Company's electric rate schedules. *Id.*

Capitol Water asks the Commission to (1) process the Application under Modified Procedure; (2) approve the proposed Schedule No. 3 change on less than 30 days' notice on an interim basis effective July 1, 2011, subject to refund;¹ and (3) order that the proposed Schedule No. 3 changes become permanent, effective August 1, 2011. *Id.* Only the first two requests are ripe for decision at this Decision Meeting.

THE APPLICATION

In its Application, Capitol Water notes that since its last case to establish a new tariff rate to recover its purchased power costs (CAP-W-10-01), "Idaho Power Company has been granted a number of [rate] changes . . . which increased rates and charges paid by Applicant to Idaho Power Co. for electric service." *Id.*

Capitol Water's current base rates were established in 2008. In Order No. 30762, the Commission approved "a three (3) year average of 1,454,401 KWh of electricity consumption at an average cost of 5.19¢ to establish rates for Applicant." *Id.* Capitol Water states that its total

¹ Capitol Water's Application misstates the requested interim effective date as "July 1, 2010." *Application* at 2. Capitol Water's attached, proposed Schedule No. 3 clarifies that the requested interim effective date is "July 1, 2011."

cost of electric power is \$75,483.41. *Id.* A recalculation of Capitol Water’s average cost per kWh at Idaho Power’s current rates for electric power “produces an average cost of 5.77¢ per kWh.” *Id.* Capitol Water estimates that this revised average cost per kWh yields an annual cost for electric power of \$83,856 – an increase of \$8,372 or 11.1%. *Id.* at 2.

Capitol Water asks the Commission to permit Capitol Water to replace its “currently approved Schedule No. 3 Purchased Power Cost Adjustment of 0.81% with a new Purchased Power Cost Adjustment of 1.44%.” *Id.* Capitol Water proposes this change for two reasons:

Subsequent to the issuance of the Commission’s Order No. 32056 in Case No. CAP-W-10-01, an error was discovered in the calculation of Applicant’s average cost of electric power used in prior cases. That error understated the average cost of Applicant’s electric power costs reducing Applicant’s Schedule No. 3 Purchased Power Adjustment approved in Case No. CAP-W-10-1. Hence, Applicant has under recovered its purchased power costs over the last twelve months. Correction of that calculation error together [with] the changes to Idaho Power Company’s tariff rates . . . produce an increase in the Applicant’s Schedule No. 3 Purchased Power Adjustment.

*Id.*² Capitol Water also seeks to recover, as part of the PPCA, \$1,000 for its “costs to review the Idaho Power Company cases, determine their effect on Applicant, prepare and file this application and respond to questions regarding the Application.” *Id.*

Capitol Water attaches several exhibits to its Application. In Exhibit No. 1, the Company presents the calculations underlying its proposed PPCA. In Exhibit No. 2, Capitol Water attaches its current Schedule No. 3 with corrections reflecting the proposed changes to the PPCA. Capitol Water also attaches a copy of its proposed Schedule No. 3, effective date July 1, 2011, for the Commission’s approval.

Capitol Water states that it was “unable to file this application in a timely manner to meet the Commission’s 30-day notice requirement due to the date Commission Order Nos. 32248, 32250 and 32251 were issued.” *Id.* at 2-3. Consequently, Capitol Water says that it “was unable to review those orders and the effect on Applicant until after June 1, 2011.” *Id.* at 3.

² Capitol Water refers to Idaho Power’s Commission-approved rate changes from Order Nos. 32248 (granting Idaho Power authority to increase its contribution to its pension plan , resulting in a 1.39% increase for all customer classes); 32250 (approving Idaho Power’s request to reduce the annual Power Cost Adjustment surcharge an average 4.8%); and 32251 (approving an average 0.74% increase to residential and small-business customers in this fourth year of Idaho Power’s Fixed Cost Adjustment Program). Idaho Power’s approved rate changes result in an overall, net average rate decrease of 3% for all customer classes and about 1.45% for residential customers. According to Capitol Water, Idaho Power’s rate changes combined with Capitol Water’s historic underrecovery of its electric power costs now require an increase in Capitol Water’s PPCA.

Capitol Water assures the Commission that it will issue a notice advising its customers of its pending Application before the Commission and that the notice will be “included with customer bills to be mailed July 1, 2011 and by a news release that is being sent to the Idaho Statesman and the Idaho Business Review newspapers” in conjunction with the filing of its Application. *Id.* at 2-3. A copy of the customer notice and news release were filed as Exhibit Nos. 3 and 4, respectively. *Id.* at 3.

STAFF RECOMMENDATION

1. Modified Procedure Should Be Used.

Staff has reviewed Capitol Water’s Application and believes that the issues presented may be adequately addressed through written submissions rather than a hearing. Accordingly, Staff concurs with the Company’s request that the Commission process the Application under Modified Procedure with a 21-day comment period. *See* RP 201 and 202.

2. The Interim Rate Should Not Be Allowed.

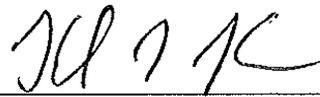
Staff recommends that the Commission not grant Capitol Water’s request for an “interim” Schedule No. 3 rate to take effect July 1, 2011, subject to refund for three reasons. First, under Idaho law, no rate change may take effect on less than 30 days’ notice, absent a showing of good cause. *See Idaho Code* § 61-307. Thus, the soonest the proposed increase could become effective is July 6 (absent good cause). Second, if the proposed increase becomes effective on July 1 as requested by the Company, customers will not have received the required notice until *after* the rate is effective (subject to refund). *See* RP 125. Finally, the Commission has observed that “interim rate relief is an extraordinary remedy to be granted only in an emergency or where there is danger that the utility will not be able to render adequate service if relief is withheld.” Order No. 25683 at 3. Here, Capitol Water asks that its proposed “interim” rate take effect in less than 30 days. Staff does not believe that Capitol Water’s stated inability to review the Idaho Power rate change Orders (*see fn. 2, above*) until after June 1, 2011, is a sufficient showing of “good cause” to obtain the extraordinary relief requested.

The Company will continue to collect the current PPCA rate until the new rate is established. The recovery period will be delayed, but reasonable recovery still will occur over a 12-month period. This also will be a better process to allow adequate notice for this year and future years.

COMMISSION DECISION

Does the Commission wish to process Capitol Water's Application through Modified Procedure and issue a Notice of Application and Modified Procedure with a 21-day comment period?

Does the Commission wish to approve an interim Schedule No. 3 rate effective July 1, 2011 (subject to refund) or suspend the proposed rate pursuant to *Idaho Code* § 61-622?



Karl Klein
Deputy Attorney General

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