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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
CAPITOL WATER CORPORATION TO)
CHANGE ITS SCHEDULE NO. 3 PURCHASED)
POWER ADJUSTMENT RATE.)
) **CASE NO. CAP-W-11-01**
) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

The Staff of the Idaho Public Utilities Commission comments as follows on Capitol Water Corporation's June 6, 2011 Application to change its Schedule No. 3 Purchased Power Cost Adjustment (PPCA).

BACKGROUND

Capitol Water seeks to increase its PPCA from 0.81% to 1.44% on an interim basis effective July 1, 2011 (subject to refund). Capitol Water requests that the interim increase become permanent effective August 1, 2011.

Reasons for Increase

Capitol Water asks to increase its PPCA for several reasons.

First, the Company now pays more for power than it did when its base rates were established. The Commission approved Capitol Water's current base rates in 2008 in Commission Order No. 30762, which authorized an average cost of 5.19¢ per kWh based on a three-year average of 1,454,401 kWh for electricity consumption. Thus, Capitol Water's total

electric power cost included in base rates was \$75,483 (i.e., 5.19¢ per kWh x 1,454,401 kWh x \$1.00/100¢). According to Capitol Water, however, recent Commission-approved changes to Idaho Power's rates have increased the amount Capitol Water pays to Idaho Power for electric service.¹ Capitol Water says that its average cost per kWh at Idaho Power's current rates is now 5.77¢ per kWh, which has increased Capitol Water's total annual electric power cost by 11.1% from \$75,483 to \$83,856.

Second, the Company says it erred in calculating the PPCA in 2010, which resulted in the under-collection of power costs. The Company proposes to increase the PPCA this year to correct last year's alleged error.

Third, the Company states that its new PPCA should include \$1,000 to offset the Company's costs to review the recent Idaho Power cases, determine their effect on the Company, prepare and file the Application, and respond to any questions about the Application.

Timing of Increase

Capitol Water asked the Commission to approve an interim PPCA rate increase that would take effect on July 1, 2011 (subject to refund) and become permanent on August 1, 2011. However, because Capitol Water did not file its Application until June 6, 2011, Capitol Water's proposed July 1, 2011 effective date would have occurred less than 30 days after the filing date. The Commission ultimately denied the Company's request for an interim rate, and suspended a proposed July 6, 2011 effective date for sixty (60) days, or until such time as the Commission may issue an Order accepting, rejecting, or modifying the Application. See Commission Order No. 32287 (Company did not show "good cause" for a rate change on less than 30-days notice).

STAFF ANALYSIS

Capitol Water asks to change the PPCA that the Commission approved in Order No. 30881. The Company says the proposed increase will allow it to properly recover its increased

¹ 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.

power supply costs arising from recently approved changes to Idaho Power's electric rate schedules. The Company proposes a change (which the Company characterizes as a "correction") in the methodology by which the PPCA is calculated.

As discussed below, Staff agrees that the PPCA change is necessary. However, Staff believes a methodology change is unwarranted, and that the Company's PPCA should decrease.

Revenue Band

In 2009 Capitol Water filed a case (Case No. CAP-W-09-01) to initially establish a tariff to recover its cost of electricity related to the increase in Idaho Power Company's Schedule 55, Power Cost Adjustment. In the 2009 case, the Commission ordered Capitol Water to utilize a 0.25% revenue band in determining each year whether to file for an adjustment of its total revenue to recognize changes in power costs. When Staff reviewed the Company's Application, Staff calculated a different incremental power cost amount than that calculated by the Company. Staff nevertheless agrees that the change in power supply costs meets the requirement for filing an adjustment under the revenue band. This is discussed in greater detail on page 6, below.

Idaho Power Rate Adjustments

Staff notes that when the Company filed Case No. CAP-W-09-01, Capitol Water sought approval from the Commission to establish a new tariff rate to recover purchased power costs directly related to Idaho Power's Power Cost Adjustment (PCA) (Case No. IPC-E-09-11). Staff interprets Commission Order No. 30881, cited above, to include changes in Idaho Power's PCA costs and all other miscellaneous Idaho Power rate changes such as the Fixed Cost Adjustment (FCA), the Demand Side Management (DSM) tariff rider and base rate changes caused by increased pension costs and cost recovery of Automated Meter Installation. In analyzing this case, Staff considers these costs to be included in "changes in power costs" as noted in Order No. 30881.

In Case No. CAP-W-10-01, the Commission approved the Company's request to change the Company's PPCA rate from 1.45% to 0.81%. See Order No. 32056. That Order approved a Schedule No. 3 that includes a \$500 rate case fee for the Company's consultant. After the Commission issued the Order, however, the Commission issued several other Orders affecting Idaho Power's rates. See Footnote 1, above. The Commission-approved changes to Idaho

Power's electric rates changed the amounts that Capitol Water pays Idaho Power for electric services. Consequently, the Company now proposes to replace the currently approved Schedule No. 3 PPCA of 0.81% with a new PPCA of 1.44%. The new PPCA reflects the combined change in Idaho Power rates, collection of \$1000 in consultant fees, and a change in the methodology used to calculate the average normalized cost per kWh.

Commission Approved Methodology

The methodology used to calculate the incremental power cost increase in Capitol Water's previous two PPCA cases started with actual 2005 energy consumption and actual 2008 energy cost to determine an actual 2008 cost per kWh (\$0.0519 per kWh from Order No. 30762). A test year of 2005 was used in Capital Water's most recent general rate case. Because actual energy consumption in 2005 was determined to be significantly above normal (1,940,746 kWh), a three year average was used to calculate normalized annual energy (1,454,401 kWh). Normalized, base rate power supply costs of \$75,483 were then determined by multiplying normalized energy and the average rate per kWh (1,454,401 X \$0.0519).

The average cost per kWh for Capital Water under Idaho Power's new rates was then calculated by using the 2005 actual energy consumption model. The average rate in 2009 and 2010 was calculated to be \$0.0580 per kWh and \$0.0552 per kWh, respectively. These rates were then multiplied by the normalized energy (1,454,401) to determine the expected annual power cost each year. The difference between the expected power cost under new rates and power costs already collected through base rates (\$75,483) was collected from customers through Schedule 3.

Using the same methodology used in the previous cases, Staff calculated the average cost per kWh using the new Idaho Power rates effective June 1, 2011 to be \$0.052891 per kWh. Again, this new average rate of \$0.052891 per kWh was calculated using the new Idaho Power rates applied to the 2005 actual energy consumption model. The proposed electric power costs using the restated average cost per kWh is \$76,925 (1,454,401 kWh x \$0.052891 per kWh). Given that \$75,483 in electric power cost are currently embedded in the base rates, the incremental power cost to Capitol Water due to Idaho Power's rate changes is \$1,442 (\$76,925-\$75,483). Consequently, Staff believes the current Schedule No. 3 surcharge of 0.81% to collect

\$5,311 (including \$500 consultant fee) should be reduced to \$2,442 (i.e., \$1,442 plus the \$1,000 consultant fee discussed below).

Methodology Change

In its Application, the Company proposes a “correction” to the current methodology by changing the calculation of annual power costs. The effect of the Company’s adjustment is to increase the cost of energy from the \$0.052891 per kWh average using Commission approved methodology to an average of \$0.057657 per kWh. Annual power costs are \$6,932 per year higher under the Company’s calculation. The Company has provided insufficient rationale for such a “correction”. Staff disagrees that the Company’s proposed adjustment provides a more accurate estimate of normalized annual power costs.

The Company also requests \$1,000 to cover its costs to have a consultant review Idaho Power’s rate increases, determine the effect on Company power costs, and prepare and file the Application. In prior cases, the Commission has allowed the Company to recover \$500 for consultant expenses. See Order No. 30881, Case No. CAP-W-09-01 and Order No. 32056, Case No. CAP-W-10-01. While Staff does not support the Company’s proposed power cost calculation adjustment, Staff does not oppose the Company’s request to recover the \$1000 consultant fee. As part of its review, Staff asked the Company to justify the \$1,000 amount. The Company responded with detailed information on the total time the consultant took to quantify Idaho Power’s Commission-approved rate increases, determine their effect on Capital Water, and prepare the filing including new tariffs. The consultant charged the Company \$100/hour for ten hours of work, for a total charge of \$1,000. Staff concludes that \$1,000 is a reasonable consultant fee and that the Commission should allow the Company to recover this expense.

Adding \$1,000 for rate case expenses results in a total incremental power cost of \$2,442 (\$1,442 + \$1,000). This is the amount the Company should be allowed to collect from Schedule 3.

Using the incremental power cost of \$2,442, Staff calculated the new PPCA to be a billing surcharge of 0.37% ($\$2,442/\$651,738$). This compares to the Company’s current PPCA rate of 0.81% to recover \$5,311 in additional power costs. The net effect is a reduction in the billing surcharge and customer rates.

As part of Commission Order No. 30881, the Commission directed the Company to utilize a 0.25% revenue band when determining each year whether to ask the Commission to adjust the Company's total revenue to account for power cost changes. In this case, Staff calculates the incremental decrease in the Company's power costs to be \$2,870 (\$654,179 - \$657,049), and the percent decrease in the Company's total revenue requirement to be 0.44% ($\$2,870 \text{ incremental power cost} / \$657,049 \text{ Revenue per Order 32056} \times 100$). The 0.44% decrease exceeds the 0.25% band as required by the Order. Therefore, it is appropriate for the Company to file for rate adjustments. Attachment A shows the Company and Staff proposals for the PPCA.

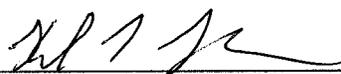
Staff calculates that reducing the Company's current PPCA from 0.81% to 0.37% will decrease a typical customer's water bill by \$1.02 per year.

Staff notes that as of the filing date for these comments, there have been no comments from the public.

STAFF RECOMMENDATION

Staff recommends a decrease of the Company's PPCA from 0.81% to 0.37%. The new rate should include recovery of \$1,000 for consultant fees. The 0.37% PPCA should be reflected in the Company's Schedule 3, Other Recurring and Non-Recurring Charges.

Respectfully submitted this 22nd day of July 2011.



Karl T. Klein
Deputy Attorney General

Technical Staff: Kathy Stockton
Gerry D. Galinato

<i:umisc/comments/capw11.1kkdhklsdg> comments

Capitol Water Purchased Power Cost Adjustment - Case No. CAP-W-11-01
Calculation of Purchased Power Cost Adjustments (PPCA) and +/- 0.25% Revenue Band

Line No.	Description	Company		Staff		Explanation
		Proposal		Proposal		
1	Base Revenue	\$ 651,738		\$ 651,738		Per Order No.30762 in CAP-W-08-02
2	Normalized 3-yr Average Power Consumption (kwh)	1,454,401		1,454,401		Per Order No.30762 in CAP-W-08-02
3	Average Cost (\$/kWh)	\$ 0.0519		\$ 0.0519		Per Order No.30762 in CAP-W-08-02
4	Power Costs Embedded in Basic Rates	\$ 75,483.41		\$ 75,483.41		Line 3 x Line 2
5	Restated Average Cost per kWh-new IPC Rates	\$ 0.057657		\$ 0.052891		
6	Power Costs Embedded with New IPC Rates	\$ 83,856.25		\$ 76,924.72		Line 5 x Line 2
7	Incremental Power Costs at New Rates	\$ 8,372.84		\$ 1,441.31		Line 6-Line 4
8	Rate Case Cost	\$ 1,000		\$ 1,000		
9	Total Incremental Power Costs at New Rates	\$ 9,372.84		\$ 2,441.31		
10	Revenue Required at New IPC Rates	\$ 661,110.84		\$ 654,179.31		Line 9+Line 1
11	Incremental Power Revenue at Old Rates	\$ 5,311		\$ 5,311		Per Order No.32056 in CAP-W-10-01
12	Total Current Revenue	\$ 657,049		\$ 657,049		Line 11+Line 1
13	Increase or (Decrease) in Incremental Power Costs	\$ 4,062		\$ (2,870)		Line 9-Line 11
14	% Increase or Decrease in Total Revenue	0.618% a/		-0.437% a/		(Line 10-Line 12)/Line 12 x 100
15	Exceeds +/- 0.25 % Revenue Band?	Yes		Yes		
16	Purchased Power Cost Adjustment (PPCA) Required	1.44% b/		0.37% b/		Line 9/Line 1

Notes:

- a/** This is the calculated % Revenue Band = proposed revenue with new IPC rates-current revenue at current IPC rates/current rev. at current IPC rates x 100. This is also the % change in rev. rate or customer rates due to proposed change in Company's PPCA.
- b/** PPCA=Incremental Power Revenue at new IPC rates/Base revenue x 100.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF JULY 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-11-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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