

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**CAPITOL WATER CORPORATION'S)
APPLICATION TO INCREASE ITS) CASE NO. CAP-W-16-01
SCHEDULE NO. 3 PURCHASE POWER)
ADJUSTMENT RATE) ORDER NO. 33565
)**

On June 14, 2016, Capitol Water Corporation applied to the Commission for authority to adjust its Schedule No. 3 Purchased Power Adjustment Rate to “recover the Company’s cost of electricity related to Idaho Power Company’s electric rate schedules that have been approved by the Idaho Public Utilities Commission.” Application at 1. Capitol Water proposed an effective date of August 15, 2016.

On June 21, 2016, the Commission issued a Notice of Application, Notice of Modified Procedure, and Order. Order No. 33545. Commission Staff reviewed the Application and filed written comments on July 19, 2016. Capitol Water filed a timely reply. The Commission received one written comment from a Capitol Water customer supporting the request.

BACKGROUND

In 2009, the Commission approved Capitol Water’s request to implement a purchased power cost adjustment (PPCA) mechanism. Order No. 30881. The intent of the PPCA is to provide the Company with a way to adjust for increased or decreased purchased power costs. The current mechanism assumes that the amount of electricity consumed by the Company is stable over time, and that electricity costs are affected only by changes in electricity rates charged by Idaho Power.

In approving the PPCA, the Commission adopted an average use of 1,454,401 kWh¹ of electricity consumption, at an average cost of 5.19¢ per kWh, resulting in a total electric power cost rate of \$75,483, which is included in base water rates. *Id.* The Company’s Schedule 3 takes in or offsets the difference between power costs that are in base rates and actual projected power costs to be paid by the Company. The Company’s current Schedule 3 PPCA rate is 4.25%.

¹ Since its implementation in 2009, the PPCA has utilized an electric use value based on a normalized average of the Company’s 2006-2008 consumption.

PROPOSED ADJUSTMENT

The Company claims that Idaho Power's current rate of 7.15¢ per kWh produces an annual cost for electric power of \$103,972, a difference of \$28,488 above what is in base rates. *Application* at 2. Factoring in \$1,100 associated with the preparation and filing of the Application, the Company proposes an increase of 0.29%, bringing the PPCA rate to 4.54% to generate a revised PPCA of \$29,588. The Company notes that the electricity rates affecting its power costs were approved by the Commission, and also requests that "the Commission take official notice of Idaho Power Company rates and charges currently in effect and on file." *Id.* at 1.

In support of its request, the Company includes with its Application a worksheet detailing its calculations (Exhibit No. 1), a copy of the proposed Schedule No. 3 in legislative format (Exhibit No. 2), a sample customer notice that will be included in the July billing (Exhibit No. 3), and an Idaho Statesman and Idaho Business Review news release. *Id.* (Exhibit No 4).

STAFF COMMENTS

Staff reviewed the Application and attachments and found that the Company's description of increasing power rates are accurate and its case preparation costs are reasonable. Consequently, Staff recommended the Commission approve those requests. However, Staff also recommended modifications be made to the Company's request, and certain changes be made to billing statements, and notice in future PPCA filings. Specifically, Staff recommended an adjustment to the energy consumption number, and some administrative changes to better clarify to customers the PPCA charges.

1. Energy Consumption Levels

Staff evaluated the historical normalized three-year average of 1,454,401 kWh used to calculate annual power supply costs, and reported that, due to gains in efficiency through well maintenance and cleaning and equipment upgrades, the normalized average is no longer representative of actual energy consumption and should be adjusted accordingly. Staff submitted that current actual energy consumption (1,295,445 kWh) is more accurate than the nearly 10-year old normalized average. The current consumption produces about the same volume of water using less power. Thus, Staff argued that current actual energy consumption levels be used in this case and all future PPCA filings.

Using the current actual energy consumption levels results in an annual power supply cost of \$92,608, rather than \$103,972, as requested. This translates to a 2.8% PPCA rate, rather than the 4.54% rate requested—or an overall *decrease* of approximately 1.4%. See Staff Comments, Atch. A. Staff acknowledged that actual energy consumption could change in the future, and committed to monitor and modify the consumption number if circumstances change.

2. Customer Relations Issues

Staff identified three customer relations issues that it believes should be addressed by the Company going forward. Specifically, Staff found that: (1) the description of the PPCA in Schedule No. 3 does not clearly explain what the charge is for or how it is calculated; (2) customer billing statements do not accurately identify PPCA charges; and (3) the Company's notice failed to state the proposed total dollar amount increase, and the percentage increase for major customer classes, as required by Utility Customer Relations Rule 125.01, IDAPA 31.21.01.125.01.

Staff recommended the Company be directed to work with Staff to revise Schedule No. 3 to reflect the purpose and calculation methodology of the PPCA. Staff further recommended the Commission instruct the Company to revise its billing statements to better identify the PPCA line item charge. Finally, Staff asked that the Commission require the Company to review Rule 125, IDAPA 31.21.01.125, and to consult with Staff on future customer notices to ensure compliance.

COMPANY REPLY COMMENTS

The Company objected to Staff's recommendation to use a single year rather than the 2006-2008 three-year normalized average. The Company takes issue with the change in methodology, and also argued that efficiency improvements come at a cost to the Company that are not in rates. The Company claimed that it is currently working on, and soon intends to file, a general rate case to update its overall rate structure. Because of this future rate case, the Company proposed that rather than change the calculation methodology in this PPCA case, that the Commission maintain the status quo here, and that the PPCA methodology be refined and updated during the course of the forthcoming rate case.

With regard to the customer relations issues, the Company stated that it will work with Staff on making the recommended changes going forward.

DISCUSSION AND FINDINGS

The purpose of the PPCA mechanism is to allow the Company a way to adjust its rates commensurate with changes it experiences when its power supply costs go up or down. *See* Order No. 30881. The Company's power costs are determined by two factors: the amount of power used, and the rate paid for the power. Here, there is no dispute that rates the Company is charged for power have gone up. There is also no dispute that, through gains in efficiency, the amount of power used by the Company has gone down. Accordingly, we find it appropriate to use the Company's current, actual energy consumption as the basis of its PPCA as it produces a more accurate forecast of what the Company will be paying for power over the next year.

We understand the Company's averseness to this change in the formula used to forecast its power costs, as it results in an overall reduction in its Schedule 3 rates, but note that we never intended the three-year normalized average to be permanent. Rather, in implementing the PPCA mechanism, we held that "[f]uture changes in the Company's normalized kWh consumption . . . may necessitate changes to the present incremental power cost adjustments." *Id.* We note further that on the face of the Company's Application, the requested increase by the Company is barely inside the 0.25% revenue band required for a PPCA filing. *See id.* This is especially concerning when we consider that nearly 60% of the increase is attributable to expenses incurred in filing the Application.

After a thorough review of the record, we find the adjustment relating to the Company's increased power rate appropriate, and that \$1,100 in case preparation and filing costs is reasonable. We find further that the Company's actual power consumption has decreased from the three-year average used in base rates, and that 1,295,445 kWh of actual electricity consumed over the past 12 months is a more accurate indicator of power use. Applying this amount to the updated electricity rate of 7.15¢ per kWh results in an overall Schedule 3 *decrease* from \$27,699 to \$18,225. We direct the Company to consider future changes in consumption and rates going forward to ensure the purpose of the PPCA—to accurately match the Company's power supply costs—is fulfilled.

Accordingly, we find that the Company shall decrease its PPCA by 1.45% from the current 4.25%, and that the 2.8% PPCA should be reflected in the Company's Schedule 3.

ORDER

IT IS HEREBY ORDERED that Capitol Water's Application to adjust its Schedule No. 3 Purchased Power Cost Adjustment is approved, with modifications. The Company shall decrease its PPCA from 4.25% to 2.8%.

IT IS FURTHER ORDERED that the effective date of the new 2.8% PPCA will be August 15, 2016. The Company shall file its conforming tariff Schedule No. 3 by August 12, 2016.

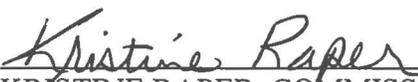
IT IS FURTHER ORDERED that the Company shall work with Staff to make changes in its description of the PPCA in its Schedule No. 3, and billing statements, and to conform with notice requirements in future PPCA filings.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within 21 days of the service date of this Order. Within seven days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See Idaho Code § 614-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 8th day of August 2016.



PAUL KJELLANDER, PRESIDENT

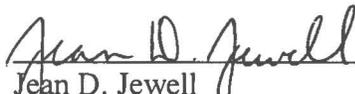


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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