



Regulation & Ratemaking

Idaho Power Company
Wood River Electrical Plan
Educational Session
February 15, 2007

The Regulatory Compact

- An exchange where a utility...
 - Has an exclusive franchise service area and is not subject to direct competition
 - Builds, operates and maintains generation, transmission, and distribution infrastructure to fulfill an obligation to serve all customers within the franchise service area
 - Has an opportunity to earn a fair rate of return on those investments
 - Is price regulated through an administrative agency

General Rate Case

- A rate case is the process through which a utility sets the rates it is allowed to charge its customers
- Global Review
 - All Rate Base Items
 - Revenues
 - Expenses
 - Capital Structure
 - Return on Investment
 - Rate Design
 - Rules and Regulations

Building a Rate Case

- Determine the Test Year
 - Historical or Forecast 12-month Period
 - Last case used a 2003 blend of actual and forecast
- Gather Test Year Data
 - Actual information from the Company's books and records
 - Forecast Budget Data

Building a Rate Case

- Test Year Adjustments
 - Annualizing
 - Bringing the annual expenses to year-end levels
 - Example – Compensation expenses are normally reflective of year-end employment levels
 - Normalizing
 - A smoothing method to reflect a widely varying expense
 - Example – Power supply expenses and offsetting revenues
 - Known and Measurable
 - A known, measurable, and material addition outside the TY
 - Example – Completion of a major transmission project in the spring following the test year

Rate Case Participants

- Commission
- Commission Staff
- Company
- Administrative Law Judge (Oregon only)
- Citizen's Utility Board (CUB – Oregon only)
- Customer Groups
 - Industrials, Irrigators, Retailers, AARP, Specials, etc.
- Environmental Interests
 - NRDC, Renewables Northwest, Advocates for the West
- Others

Rate Case Process

- Notice of Intent to File a General Rate Case
- File the Case – The Company’s Application, Testimony, and Exhibits
- Discovery – Data requests and depositions
- Staff and Intervenors Direct Case
- Rebuttal Filing by all Parties
- Hearings – Cross Examination of the Witnesses by the Parties and Commission (in Idaho) or the ALJ (in Oregon)
- Briefs
- Final Order
- Petition for Reconsideration (if necessary)
- Appeal to the Supreme Court (in severe circumstances)

The Application

- Initiates the Process at the Commission
- Filed by the Party Seeking the Rate Adjustment
- States the Need for the Change
 - Testimony
 - Exhibits
- Basic Building Blocks
 - Rate Base
 - Capital Structure
 - Expenses

Rate Base

- Investment in assets needed to provide service
- Land, generators, transformers, poles, wire, meters, etc.
- Fuel inventory, materials and supplies, and cash
- Less customer supplied funds
 - Deposits and advances
 - Deferred taxes
 - Accumulated Depreciation

Capital Structure

- Where the investment money comes from
- Debt
 - Long-term debt
 - Cost = interest
- Equity
 - Shareowner money
 - Common and Preferred Stock
 - Cost = Return on Equity or Profit

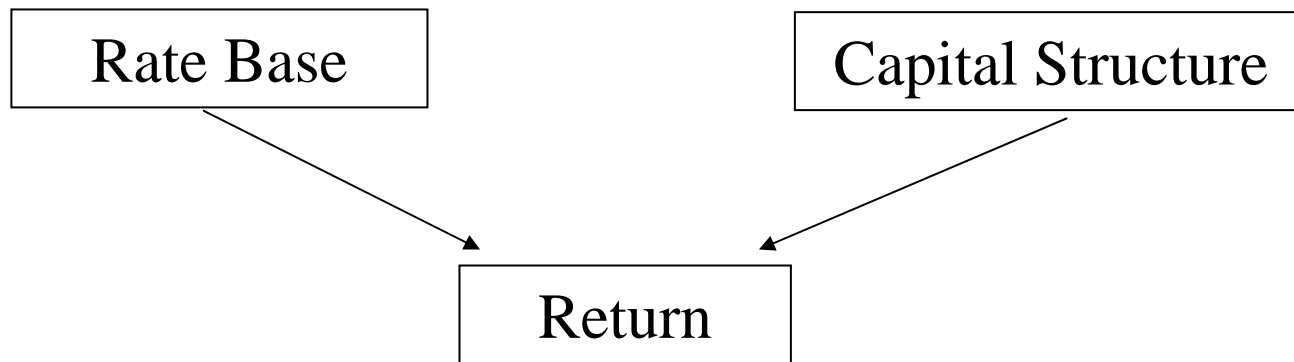
Return

- The Company's Cost of Capital
- Return on Rate Base (Utility Assets)
- Allowed Rate of Return
- The measurement of our opportunity to earn a fair and reasonable return on our investment
- Money that is recovered from customers

Capital Structure

	Percent	Cost / Interest	Weighted Cost
Long Term Debt	51.060%	5.769%	2.946%
Preferred Equity	2.969%	6.534%	0.194%
Common Equity	45.971%	10.250%	4.712%
TOTAL	100%	--	7.852%

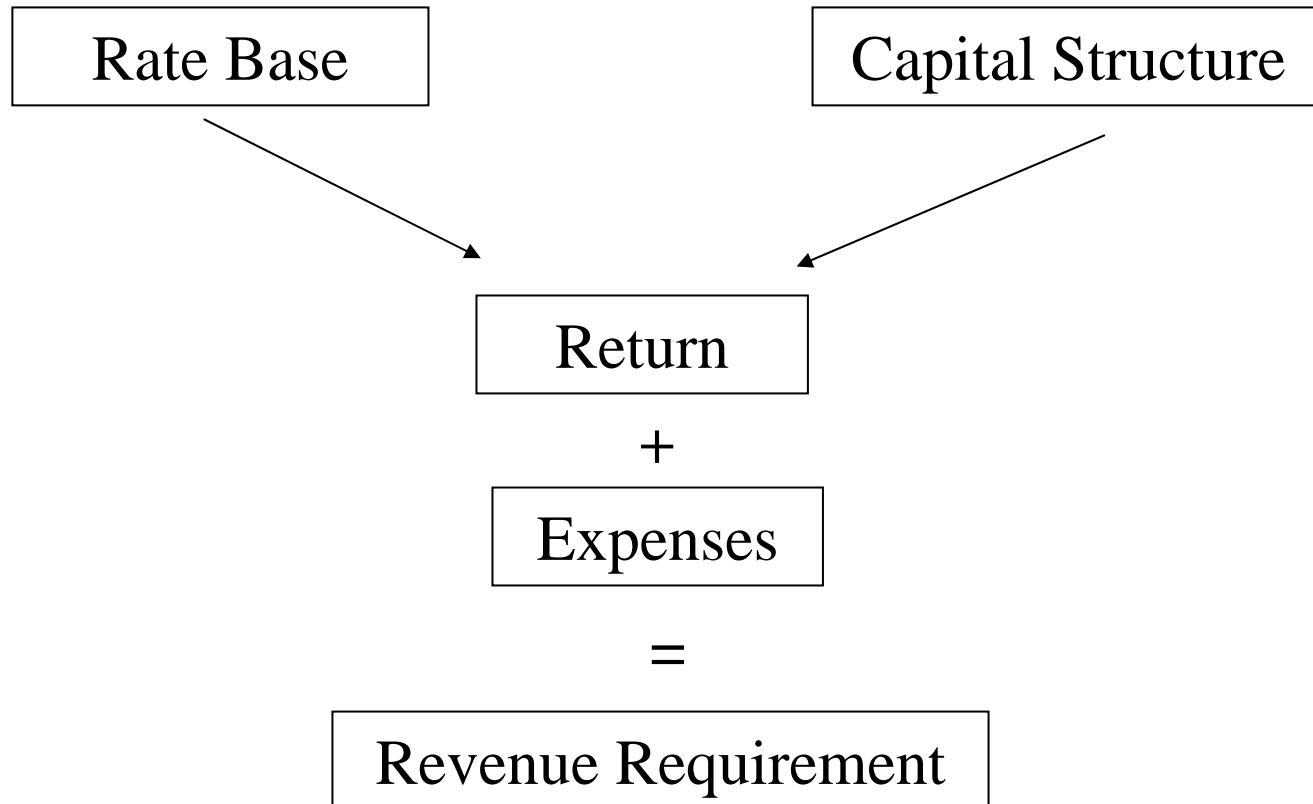
Building Blocks



Expenses

- Costs of running a utility on a daily basis
- Operating & Maintenance expenses
 - Payroll and benefits
 - Fuel and purchased power
 - Customer service and administration
 - Bad debts
 - Taxes
 - Depreciation
- Dollar for dollar recovery from customers

Building Blocks



Revenue Requirement

- Total revenue required to operate the utility and provide the investors a fair and reasonable return for the use of their money
- Collected through tariffs
 - Billing rates (prices)
 - Result from the rate design process
- $RR = r(RB) + OE + T + D - OR$

Jurisdictional Separation

- The process of allocating the total system cost of service among the various regulatory jurisdictions
 - IPUC, OPUC, and FERC
- Allocations are based upon a number of factors
 - Demand (capacity), energy (commodity), customer counts, direct assignments, etc.

Class Cost of Service

- A continuation of the allocation process related directly to the Idaho jurisdiction
- The cost of service is spread among the customer classes and special contract customers
- There are a number of allocation methods
 - Points of view may (and will) vary by party
- Idaho Power weights certain allocators based upon marginal costs

Rate Design

- Rate Design = Component Pricing
 - Primarily Customer, Demand, and Energy Charges
- Objectives
 - Establish prices that primarily reflect the costs of the services provided
 - Provide customers with price signals that reflect the variation in the costs of providing service at different times of the year and day

Discovery

- The method to officially exchange information that may be relied on later in the process
- May come in the form of Data Requests, Interrogatories, and Depositions
- Since the Company controls the bulk of the data, any information in the Company's control may be subject to discovery

Negotiation

- Anytime throughout the process
- Attempt to reach a settlement with all the parties
- Advantages
 - Early implementation
 - Avoids a hearing
- Disadvantages
 - Quid pro quo
 - Avoids a hearing

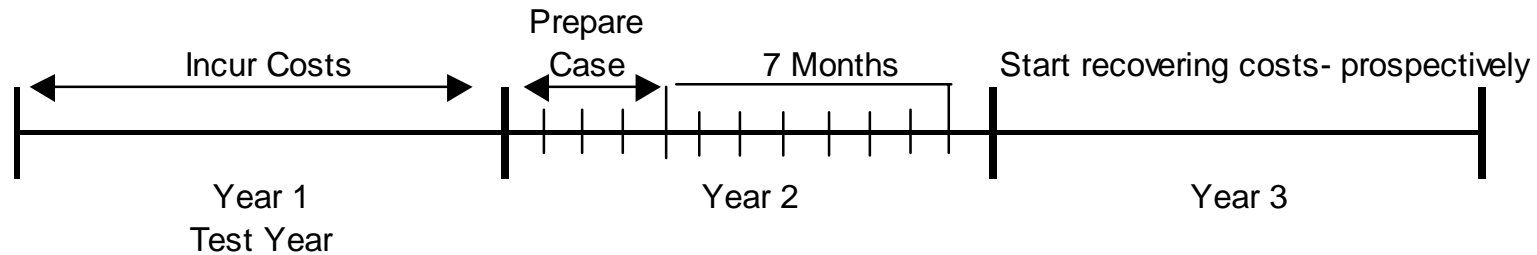
Hearing

- Like a trial
 - Commissioners – judge and jury
 - Administrative Law Judge (ALJ)
 - Rules of evidence
 - Many parties
 - Cross examination
 - Transcribed

Conclusion

- Commissioners review the evidence
 - Testimony
 - Exhibits
 - Transcript
 - Briefs
- Issue an order
- Rehearing
- Appeals
- Tariff Implementation

Regulatory Lag



Typical Timeline: Cases are costly and time consuming

- Test year (12 months)
- Case Preparation (4 months)
- Case litigation
 - 7 months in Idaho
 - 9 months in Oregon