

Idaho Power/802  
Witness: Timothy E. Tatum

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

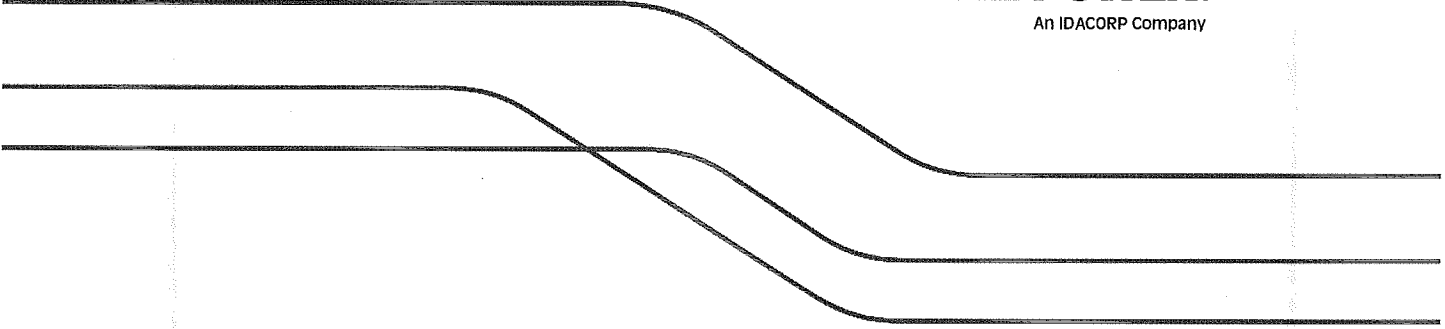
IDAHO POWER COMPANY

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**ERRATA**

Exhibit Accompanying Testimony of Timothy E. Tatum  
Forecast Methodology Manual

August 8, 2011



## Forecast Methodology Manual

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## INTRODUCTION

This Forecast Methodology Manual ("Manual") was developed solely to provide supporting information for the methodologies that Idaho Power Company ("IPC") used to set the values contained in its proposed 2011 test year in the 2011 general rate case filing before the Oregon Public Utility Commission ("OPUC"). The financial forecasts, estimates, and other information contained herein were developed solely for ratemaking purposes. This Manual should not be relied upon by current or prospective investors or securities market professionals for any purpose.

The values described in this Manual were provided to IPC witness Noe for appropriate application to the Uniform System of Accounts for determination of revenue requirement in the 2011 test year. The manual is organized in three sections and includes:

- **Forecast Methods.** Forecast Methods includes a description of the forecast methodologies used to develop the 2011 unadjusted test year from the 2010 actual financial data.
- **Cost of Service Components.** Cost of Service Components includes a description of the three digit account number specified in the Uniform System of Accounts adopted by the Commission and the FERC and the forecast method for each major account or account group.
- **Rate Base Components.** Rate Base Components includes a description of the three digit account number specified in the Uniform System of Accounts adopted by the Commission and the FERC and the forecast method applied for each major account or account group.



## FORECAST METHODS

Updates to the 2010 actual financial data to IPC's proposed 2011 unadjusted test year were developed using one of the following two forecast methods:

- (1) **2010 Base.** 2010 actual financial data was used when the IPC believed that certain amounts would continue to remain at 2010 levels or if account balances were very small.
- (2) **Other Adjustments.** Other Adjustments are based on known or probable factors for 2011 that relate to a particular account. Examples of these factors include but are not limited to new billing and volume contract terms, discontinued services, anticipated levels of economic activity, and existing regulatory commission orders.

## COST OF SERVICE COMPONENTS

### Forecast Adjustment A—Other Operating Revenues

Table 4—FERC Accounts 451–456

#### *Description*

Account 451 includes revenues for all miscellaneous services and charges billed to customers that are not specifically provided for in other accounts. This includes fees for changing, connecting, or disconnecting services and profit on maintenance or installations on customers' premises. Miscellaneous service revenues include continuous service reversion charges (Idaho only), field visit charges, return trip charges, returned check fees, service connection charges, service establishment charges, and application and processing fees collected for new permits, new leases, or requests for easement relinquishments. Account 454 includes rents received for the use by others of land, buildings, and other property devoted to electric operations by IPC such as joint pole attachments, facilities charges, and line and substation rents. Account 456 includes revenues derived from electric operations not includable in other revenue accounts. For example, compensation for minor services provided for others, such as engineering and revenues from transmission of electricity of others over transmission facilities of IPC, such as network and point-to-point wheeling.

#### *Forecast Methodology*

Forecast Adjustment A increases Other Operating Revenue (Accounts 451–456) by \$1,577,758 above the 2010 Base. Accounts 451 through 456 used a combination of the methods for projecting 2011 amounts as described below.

**Account 451—Miscellaneous Service Revenues.** These revenues were projected for 2011 to be the same as the 12 months actual ended December 2010 Base. This method was used because revenues in this category are not expected to either decrease or increase materially beyond the 2010 level.

**Account 454—Rent from Electric Property.** Rents from Electric Property were projected based on either the twelve months actual ended December 2010 balance or the Other Adjustment methodology.

Substation equipment rentals, transformer and distribution rentals, station and line rentals, real estate rents, dark fiber rents, joint pole attachments, overnight park rents were forecasted to be the same as the 2010 Base, as this was the most reasonable expectation for these revenues.

Cogeneration and small power production revenues and facilities charge revenues were determined by using the Other Adjustment methodology. The 2010 Base was increased for thirteen new wind projects that have or will come on-line in 2011. For 2011, cogeneration and small power production revenues were calculated by taking the number of identified wind projects times the historical average annual revenue per wind project and then increased by an annual historical growth rate of 4.5%. All existing cogeneration and small power production

revenues (Schedule 72 only) were also increased by 4.5% for annual historical growth. This resulted in a forecast adjustment for \$197,439 for cogeneration and small power production revenues. For facilities charge revenues, IPC reviews the rate for these charges intermittently. During a recent review, IPC determined that the rate should be decreased based on the current methodology. For 2011, the new annual rate will decrease the revenues generated from the facilities charges by \$1,214,026.

**Account 456—Other Electric Revenues.** Other Electric Revenues were projected based using either the carry-forward of the 2010 Base or the Other Adjustment methodology based on known factors of the individual type of 2011 revenues to be projected as described below:

Revenues related to the photovoltaic station service, Antelope substation, Sierra stand-by service, and miscellaneous were projected for 2011 to be the same as the 2010 Base, as this was the most reasonable expectation for these revenues.

The 2011 Network Transmission Customer revenues were calculated based on nine months of the network transmission customers' average load ratio share times the formula-based FERC transmission revenue requirement in effect from October 1, 2010, through September 30, 2011, and three months of the network transmission customers' average load ratio share times the forecasted FERC transmission revenue requirement. The timing for the Transmission Revenue Requirement is the same as the point-to-point wheeling rate described below. The 2011 estimated network customer MW demand used to calculate the Network Transmission Customer revenue was calculated by taking 2009 MW demand and escalating it using the .7% annual growth factor assumed in the 2009 IRP for 2010. The escalated 2010 MW demand was then increased by 2 MW for new network customer MW demand in 2011.

The 2011 point-to-point ("PTP") wheeling revenues were forecasted based on the Other Adjustment methodology and were calculated based on nine months of the 2011 equivalent KWhs times the formula based FERC transmission rate, effective October 1, 2010, through September 30, 2011, and three months of the 2011 equivalent KWhs times the forecasted transmission rate. The three-quarters and one-quarter year revenue calculation split uses the known current transmission rate in effect through September 30, 2011, and forecasting a rate that would be in effect October 1, 2011 for the final three months. The 2011 equivalent KWhs are based on an average of 2009 and 2010 equivalent KWhs.

Sierra Pacific Power Usage revenues were forecasted based on the Other Adjustment methodology. For 2011, Valmy usage is not expected to exceed capacity; therefore no revenues from Sierra Pacific Power Usage are expected.

## Forecast Adjustment B & C—Other Revenues and Other Expenses

Tables 4&5—FERC Accounts 415–416 (excluding 415.002 and 416.002)

### *Description*

Accounts 415 through 416 respectively, include all revenues derived from the sale of merchandise and jobbing or contract work and all expenses incurred in such activities. For IPC, jobbing and contract work revenues and expenses include activities related to Idaho Power Solutions, water management services, and joint pole use.

### *Forecast Methodology*

Forecast Adjustments B and C for Other Revenues (Account 415) and Other Expenses (Account 416), respectively are both \$0, therefore the 2011 forecast remains the same as the 2010 Base.

Actual account 415 and account 416 results have not seen significant growth or decline over the last two years. Revenues and expenses in these accounts are typically close to equal and offsetting. Therefore, any fluctuations in these accounts from year to year have little or no impact on the revenue requirement.

## Forecast Adjustment D—Operations and Maintenance Expenses (“O&M”)

Table 5—FERC Accounts 500–935

### *Overview*

Forecast Adjustment D increases Operations and Maintenance Expenses (“O&M”) (Accounts 500–935) by \$41,282,700 above the 2010 Base. Excluded from Adjustment D is any increase in normalized accounts 501—Fuel, 547—Fuel, 555—Purchased Power.

In developing the 2011 forecast, IPC split O&M historical actuals into two elements (Labor and Non-Labor) and forecasted each element separately and then allocated each separately to the individual FERC accounts. Excluded from this process were accounts 555.050 (Purchased Power Transmission Losses), 565.000 (Transmission of Electricity by Others), 908.131, 908.132 (Idaho and Oregon Energy Efficiency Riders), 920.001 (Incentive), 926.203, 926.204, and 926.205 (Pension Expense), and 928.203 and 928.303 (Regulatory Commission Expenses), as these were handled separately

### *Labor*

IPC calculated the projected 2011 O&M labor by first calculating the average three-year historical February year-to-date actual O&M labor costs as a percentage of the total year actual O&M labor costs which was determined to be 15.00%. This percentage was then applied to the

actual February 2011 year-to-date O&M labor of \$20,083,335 to estimate the total 2011 O&M labor costs of \$133,886,252 (the February amount was first reduced by pension expense accounts 926.203, 204 and 205), and by the Smart Grid related O&M labor (cost centers 305 and 888) which has a credit offset in a non-labor cost element. The 2011 labor projection was then allocated to FERC account based on 2010 actual labor charges to those same accounts.

The table below details the 2011 estimated labor amount:

<b>2011 Labor Expenses</b>	<b>Total</b>
February Y-T-D O&M Labor Excluding Incentive & Pension	\$20,083,335
Divided by the Historical February Y-T-D as a Percentage of Total Year Labor	15.00%
2011 O&M Labor Expense Excluding Incentive and Pension	<u>\$133,886,252</u>

### **Non-Labor**

IPC calculated the projected 2011 non-labor O&M expenses by holding to 2010 non-payroll actual expenses with adjustments for significant known changes. IPC reviewed the O&M expenses to identify and adjust those areas, based on specific knowledge, where expected expense levels are expected to be materially different than those included in the 2010 actuals.

The table below identifies significant specific increases or decreases to the 2010 non-labor actual:

<b>2011 O&amp;M Non-Labor Expenses</b>	<b>Total</b>	<b>Allocated</b>	<b>Direct Assignment</b>
2010 O&M Non-Labor Actuals	\$142,271,408	\$0	\$142,271,408
2011 Identified Significant Known Adjustments			
Thermal O&M Increases from Operating Partners	6,708,356	—	6,708,356
Bennett Mountain—2011 Combustor Inspection	1,257,722	—	1,257,722
Commission Ordered Amortizations	(1,466,130)	—	(1,466,130)
Smart Grid Investment Grant ("SGIG") Credit in 2010 Not Recurring	4,437,427	4,437,427	—
NERC Required LIDAR Surveys	1,414,000	—	1,414,000
BLM Rate Increase—Land Rents	841,224	—	841,224
Idaho Fish and Game's Projected Hatchery Increases	731,856	—	731,856
Increased IT Maintenance Expenses	723,200	—	723,200
Special Reliability Projects—Transmission	950,000	—	950,000
Inflation and Growth Related Increases	—	—	—
Subtotal 2011 Identified Significant Known Adjustments	15,597,655	4,437,427	11,160,228
<b>Total 2011 O&amp;M Non-Payroll Expenses</b>	<b>\$157,869,063</b>	<b>\$4,437,427</b>	<b>\$153,431,636</b>

The following adjustment to the 2010 Base included in the table above have been allocated to FERC account balances rather than directly assigned:

- **SGIG credit in 2010 not recurring**—O&M work relating to Smart Grid in 2010 was reduced by federal government reimbursements. The positions previously occupied by those involved with SGIG were largely left unfilled when those individuals began working on the Smart Grid project. In the latter part of 2010 and in 2011, those unoccupied positions will or have been filled so the reduction to overall O&M that was generated by the 2010 credit will not reoccur in 2011.

The following adjustments to the 2010 Base included in the table above have been directly assigned to one or more FERC accounts:

- **Power Supply Thermal (Excluding Fuel)**—2010 actual thermal plant O&M was increased by \$6,708,356 due to the following:
  - *Valmy Power Plant*—Non-fuel O&M expenses at the Valmy Plant for 2011 is expected to increase by approximately 11% over 2010 levels. The increases are due to rising chemical costs and usage; higher property insurance, legal, and environmental costs; and higher general administrative overheads. These increases are partially offset by lower maintenance costs associated with the major unit outage. Major maintenance is done on each of the two Valmy units every three years. Unit 2 was overhauled in 2010, while unit 1 will be overhauled in 2011. Unit 2 has a scrubber and therefore incurs the majority of the chemical costs at the plant. Chemical expenses were lower in 2010 because this unit was offline for major maintenance for nine weeks. To offset this increase for 2011, overall maintenance expenses in 2011 are expected to be down as the duration of the major unit overhaul on Unit 1 will be shorter and the scope of repair work is expected to be less than Unit 2. Administrative and general overheads are expected to be higher in 2011 due to an increase in plant O&M expenses and retroactive credits recorded in 2010 that will not re-occur in 2011. IPC negotiates an administrative and general (“A&G”) rate for Valmy that is applied to actual plant O&M expenses. Periodically Valmy A&G expenses that get allocated to IPC by use of this rate are “trued-up” to actual costs. NV Energy issued IPC credits in 2010 because actual 2009 and a portion of actual 2010 A&G expenses were less than what was charged out through the A&G rate. A fixed Valmy A&G rate was negotiated in 2010 that will carry through mid-year 2012. No prior period true-up credits or charges are expected to occur in 2011.
  - *Bridger Power Plant*—O&M labor costs in 2011 at the Jim Bridger Plant are expected to increase 12.5% compared to 2010 levels. The increase is attributed to PacifiCorp’s wage escalation and enhanced 401K benefits per Union Contract Local 127 that was renegotiated in 2010. In addition, a reduction in capital spending at the Jim Bridger plant is expected to result in additional labor dollars being allocated to O&M as compared to 2010.

O&M expenses attributed to materials are expected to increase 9.4%, compared to 2010 levels. The increase is primarily due to chemicals used to treat mine water being

diverted to the plant for use in the cooling towers, as well as additional materials planning to be consumed or installed as part of the maintenance overhaul on Unit #3.

O&M expenses attributed to outside services are expected to increase 22.4%, compared to 2010 levels. A reduction in capital spending at the Jim Bridger plant is expected to result in additional services being allocated to O&M that could not be charged to capital as done in 2010. Examples include boiler scaffolding expenses of approximately \$1 million that was charged to the low NO<sub>x</sub> burner capital project in 2010, but will be classified as O&M this year and turbine bearing work related to the 2010 turbine upgrade project.

Neither the impairment cost incurred in 2010 related to the delay and likely cancellation of the turbine upgrade projects nor the reduction from a prior year accrual true-up are expected to recur in 2011.

- **Boardman Power Plant**—Non-fuel O&M expenses at the Boardman plant are expected to increase 24% or \$840,000 from 2010 levels. The increase is attributed to additional additives and chemicals that will result from the installation of Mercury and NO<sub>x</sub> retrofits planned to be in-service by mid-2011, as well as an increase in overall plant maintenance. The pollution control retrofits at Boardman in 2011 are being installed to comply with the Oregon Utility Mercury Rule to reduce mercury emissions, and comply with federal regional haze (RH BART) rules for NO<sub>x</sub> reductions.

The Boardman plant experienced an outstanding year in 2010, with a forced outage factor (sum of all hours experienced during forced outages divided by number of hours the unit was in an active state) of 2.4% compared to an 2009 forced outage rate of 5.4%. This was due to fewer forced outages, specifically tube leaks, as compared to recent years. This, combined with fewer problems and issues being discovered during the major maintenance outage, caused 2010 overall maintenance expenses to be less than what the plant has experienced in recent years. The increase in plant maintenance expenses expected in 2011 is primarily the result of using historical trending to build the forecast, rather than simply relying on the 2010 result.

While the increases above were directly assigned to the overall Power Supply Thermal (Excluding Fuel) accounts, these increases were then allocated to FERC accounts 500–515 (excluding 501) based on 2010 actuals amounts in those same accounts.

- **Bennett Mountain Combustor Inspection**—Account 554 was increased by \$1,257,722 above 2010 Base due to a scheduled periodic combustor inspection and combustor parts refurbishment at the Bennett Mountain Power Plant. An inspection was not performed in 2010.
- **Commission Ordered Amortizations**—The following amortizations resulted in a decrease to the 2010 Base by \$1,466,130.

Account 908 was reduced by \$1,621,331 due to the non-recurring DSM/Conservation (Idaho Public Utilities Commission (“IPUC”) Order No. 27660) amortization that was completed in June 2010.

Account 928 was increased \$155,201 due to 2011 having three fewer months of the credit amortization of the FERC OFA refund (IPUC Order No. 30722 and 30791). This amortization is completed in August 2011.

- **NERC Required LIDAR Surveys**—Account 563 was increased by \$1,414,000 due to the need to perform LIDAR Surveys (Light Detection and Ranging) to verify transmission line rating values and methodology in order to satisfy the NERC Alert issued in October 2010.
- **BLM Rate Increase for Land Rents**—Accounts 567, 589, 931 and 935 increased \$841,224 over the 2010 Base rents due to new Federal rent schedules and Zone schedule changes. These rents are for IPC lines and facilities that are located on BLM lands. Five FERC accounts were increased based on 2010 actuals as follows—account 935 was increased by \$4,070; account 921 was increased by \$128,026; account 931 was increased \$12,173; account 589 was increased \$135,786; and account 567 was increased by \$561,169.
- **Idaho Fish & Game’s Projected Hatchery Increases**—Account 537 was increased above 2010 Base by \$731,856 due to a projected increase from Idaho Department of Fish & Game (IDFG) for hatchery operations. The increase is related to a number of factors including expanded harvest monitoring/hatchery performance evaluation, increased personnel, O&M and overhead costs, development of a fish identification system, and a contribution toward a region-wide hatchery data base.
- **Increased IT Maintenance Expenses**—Account 921 was increased by \$723,200 due to software and hardware maintenance increases. SGIG projects hardware and software maintenance (after the product’s first year) is not reimbursed by the government. This amount is incremental since IPC will still be operating on the legacy mainframe systems until the new hardware and software is fully tested and promoted into production. The expected in-service date is the second quarter of 2013 for the new applications. At that time, IPC will be archiving data from the legacy systems and beginning the process to discontinue maintenance on these legacy systems. IPC has also included an incremental amount for storage and monitoring tools due to an increase in data storage required on an annual basis and the increase in new open systems that require monitoring tools.
- **Special Reliability Projects**—Transmission, account 563, was increased by \$950,000 for transmission projects that are above the normal level of transmission maintenance that was performed in 2010. The projects will repair or replace guy wires on the Bridger to Goshen Transmission Line, and replace dead-ends on the Oxbow to Palette Junction Transmission Line.



Once O&M labor and non-labor increase or decrease amounts were determined for each FERC account, the results were combined to reflect the total forecast adjustment.

### ***FERC Account Development***

Since IPC does not forecast by individual FERC accounts the following two methods (Direct Assignment and Allocation) were used to assign both labor and non-labor to the appropriate FERC accounts.

**Direct Assignment Method**—The forecast adjustments listed in the direct assignment column in the non-labor expenses above are charges that would occur in specific accounts and therefore were directly assigned to those accounts listed below.

- Account 500–515—Thermal Plant O&M
- Account 537—Idaho Fish & Game’s Projected Hatchery Increases
- Account 554—Bennett Mountain Combustor Inspection
- Account 563—NERC Required LIDAR Surveys; Transmission Reliability Projects
- Account 567—a portion of the BLM Rate Increase
- Account 589—a portion of the BLM Rate Increase
- Account 908—Non-recurring DSM Amortization
- Account 921—IT Maintenance Expenses; a portion of the BLM Rate Increase
- Account 928—Non-recurring Amortization of FERC OFA Refund
- Account 931—a portion of the BLM Rate Increase
- Account 935—a portion of the BLM Rate Increase

**Allocation Method**—This method was used to allocate the forecast amounts when the identification of specific accounts was impossible or when the impact would be to all accounts. The O&M labor forecast was allocated to individual FERC accounts based on the percentage of 2010 actual O&M labor charges incurred within each account to total O&M labor charges incurred in 2010. The O&M non-labor forecast (not directly assigned) was allocated based on 2010 actual non-labor charges included in each FERC account to total O&M non-labor charges incurred in 2010.

### ***Exceptions to the Described O&M Methodology Above***

**FERC Accounts 555.050, 565.000, 908.131, 908.132, 920.001, 926.203, 926.204, 926.205, 928.202, 928.203, and 928.303**

As stated earlier, the following were forecasted separately from the labor and non-labor O&M forecast described above and directly assigned to the FERC accounts they impact:

- **Account 501—Fuel Expense.** The forecast amount included in this account is the same amount used for the October update of the 2010 Annual Power Cost Update (APCU) docket UE 222.
- **Account 547—Fuel Expense (Excluding 547.000—Salmon Diesel).** The forecast amount included in this account is the same amount used for the October update of the 2010 Annual Power Cost Update (APCU) docket UE 222.
- **Account 555—Purchased Power (Excluding 555.050).** The forecast amount included in this account is the same amount used for the October update of the 2010 Annual Power Cost Update (APCU) docket UE 222.
- **Account 555.050—Purchased Power Transmission Losses.** This account is anticipated to increase above the 2010 Base by \$359,462.
- **Account 557—Other Expense (Excluding 557.000).** The amounts in these accounts have been removed in their entirety from the test year.
- **Account 565.000—Transmission of Electricity by Others.** This account is forecasted by combining each individual month's actual expenses for the previous four years and then averaging each month. This average monthly amount is then combined for the twelve months and used as the 2011 forecast.
- **Account 908.131 and 908.132—Idaho and Oregon Energy Efficiency Rider Expenses.** The amounts in these accounts have been removed from the 2010 Base in their entirety per the IPUC Order No. 30189.
- **Account 920.001—Incentive Expense.** The entire actual 2010 incentive expense of \$16,398,839 was removed from the 2010 Base and replaced with the projected 2011 incentive of \$6,680,748 that includes only elements related to Customer Satisfaction and Reliability. This resulted in a net reduction for incentive expense of \$9,718,091.
- **Accounts 926.203, 926.204 and 926.205—Pension Expense.** Pension expense amortization was increased in the Idaho jurisdiction by \$13,993,913, the FERC jurisdiction by \$129,964 and in the Oregon jurisdiction by \$8,788.
- **Accounts 928.203 and 928.303—Regulatory Commission Expense.** Intervenor Funding was estimated to increase \$160,478 by assuming a one-year amortization period, per the following Orders:

- IPUC Order No. 30978—CAPAI for \$4,379.
- IPUC Order Nos. 30722—CAPAI for \$11,464 and IIPA for \$38,472.
- IPUC Order Nos. 30892—CAPAI for \$10,510, ICL for \$9,854 and IIPA for \$20,677.
- OPUC Order No. 11-011—CUB 2011 Funding Grant for \$32,350.
- OPUC Order No. 10-406—CUB 2010 Funding Grant for \$32,772.

The following O&M discussion has been organized by functional account groups. Within each account group, a general description of the accounts has been provided.

## ***Steam Power Generation***

### **FERC Accounts 500–514**

#### **Description**

Accounts 500 through 514 include the labor, materials, and expenses incurred to operate and maintain prime movers, generators, and their auxiliary apparatus, switch gear, and other electric equipment used in steam power generation. Additionally, the labor and expenses incurred in the general supervision and direction of maintenance of steam generation facilities are included in these accounts.

#### **Forecast Methodology**

**Accounts 500–514—Excluding Account 501, Fuel Expense.** The 2011 projection for accounts 500–514 was developed by adjusting the 2010 Base with the identified increases provided to IPC from the operating partners of the Thermal Generating Plants. The identified increases were spread to accounts 500–515 (excluding 501) based on 2010 actual amounts in those same accounts.

**Account 501—Fuel Expense.** The forecast amount included in this account is the same amount used for the October update of the 2010 Annual Power Cost Update (APCU) docket UE 222.

## ***Hydraulic Power Generation***

### **FERC Accounts 535–545**

#### **Description**

Accounts 535 through 545 include the labor, materials used, and expenses incurred to operate and maintain hydraulic works including structures, reservoirs, dams, waterways, generators, roads and bridges, and expenses directly related to the hydroelectric development outside the generating station, including fish and wildlife and recreational facilities. These accounts also include the labor and expenses incurred in the general supervision and direction of maintenance of hydraulic power generating stations, rents of property of others used, occupied, or operated in connection with hydraulic power generation, including amounts payable to the United States for

the occupancy of public lands and reservations for reservoirs, dams, flumes, forebays, penstocks, and power houses.

### **Forecast Methodology**

**Accounts 535–545**—The projection of accounts 535–545 was developed using both methods described under FERC Account Development above. For labor, these accounts received their allocated portion of the total 2011 labor projection based on actual 2010 labor. For non-labor, these accounts were projected to be equal to the 2010 Base adjusted by the increase in account 537 for Idaho Fish & Game’s projected hatchery increases of \$731,856 and by each account’s allocated portion of the \$4,437,427 non-direct adjustment to non-labor O&M.

### **Other Power Generation**

#### **FERC Accounts 546–557**

#### **Description**

Accounts 546 through 554 include the operation labor, materials used, and expenses incurred in operating and maintaining prime movers, generators, and electric equipment in other power generating stations. Labor and expenses incurred in the general supervision and direction of maintenance of other power generating stations are also included in these accounts. Account 556 includes labor and expenses incurred in load dispatching activities for system control. System control activities include the production and dispatching of electricity. Account 557 includes production expenses incurred directly in connection with the purchase of electricity which is not specifically provided for in other production expense accounts.

#### **Forecast Methodology**

**Accounts 546–557—Excluding Account 547, Fuel Expense; Account 555, Purchased Power; and Account 557, Other Expense.** The projection of accounts 546–557 was developed using both methods described under FERC Account Development above. For labor, these accounts received their allocated portion of the total 2011 labor projection based on actual 2010 labor. For non-labor, these accounts were projected to be equal to the 2010 Base and adjusted by a \$1,257,722 increase (in account 554) for the 2011 Bennett Mountain Combustor Inspection, and by each account’s allocated portion of the \$4,437,427 non-direct adjustment to non-labor O&M.

#### **Account 547—Fuel Expense and Account 555—Purchased Power (Excluding 555.050).**

The forecast amount included in this account is the same amount used for the October update of the 2010 Annual Power Cost Update (APCU) docket UE 222.

**Account 555.050—Purchases Power Transmission Losses.** This account is projected to increase above the 2010 Base by \$359,462. Purchased Power Transmission losses were developed based upon projected volumes and market prices.

#### **Account 557, Other Expense (Excluding 557.000—Other Power Production Expense).**

These expenses are removed entirely from the test year.

## **Transmission Expenses**

### **FERC Accounts 560–573**

#### **Description**

Accounts 560 through 573 include the operation labor, materials used, and expenses incurred in the system planning, operation, executing the reliability coordination function, monitoring, assessing, and operating the power system and individual transmission facilities in real-time to maintain safe and reliable operation of the transmission system specified. Additional activities include: processing the hourly, daily, weekly, and monthly transmission service requests using an automated system such as an Open Access Same-Time Information System (“OASIS”); billing to transmission owners for system control and dispatching service; and conducting transmission services studies for proposed transmission interconnections and generation interconnection with the transmission system. These accounts include the labor, materials used, and expenses incurred in the operation of transmission substations, switching stations, and transmission lines. The use of transmission facilities owned by others and rents of property used, occupied, or operated in connection with the transmission system are also part of this account. The accounts also include the labor, materials used, and expenses incurred in the maintenance of structures, computer hardware and software, communication equipment, miscellaneous transmission plant, station equipment, and transmission plant serving the transmission function.

#### **Forecast Methodology**

**Accounts 560–573—Excluding Account 565.000, Transmission of Electricity by Others (3<sup>rd</sup>-Party Transmission).** The projection of accounts 560–573 was developed using both methods described under FERC Account Development above. For labor, these accounts received their allocated portion of the total 2011 labor projection based on actual 2010 labor. For non-labor, these accounts were projected to be equal to the 2010 Base adjusted by \$1,414,000 increase for the LIDAR Surveys, and \$950,000 increase for Transmission Reliability Projects both to account 563, a \$561,169 increase in account 567 for its portion of the BLM rate increase for land rents, and by each account’s allocated portion of the \$4,437,427 non-direct adjustment to non-labor O&M.

- **Account 565—Transmission of Electricity by Others.** This account was estimated to increase above the 2010 Base by \$2,060,093. For the test year, this account was forecasted by combining each individual month’s actual expenses for the previous four years and then averaging each month. This average monthly amount is then combined for the twelve months and used as the 2011 forecast.

## **Distribution Expenses**

### **FERC Accounts 580–598**

#### **Description**

Accounts 580 through 598 include labor, materials used, and expenses incurred in the general supervision and direction of the operation of the distribution system such as station operation, overhead and underground line operation, meter department operation of customer meters and

associated equipment, load dispatching operations, work on customer installations, and inspecting premises. Also included in these accounts are the labor, materials used, and expenses incurred in the general supervision and direction of the maintenance of the distribution system, including maintenance of structures, distribution plant, overhead distribution line facilities, underground distribution line facilities, distribution line transformers, meters, and meter testing equipment.

### **Forecast Methodology**

**Accounts 580–598.** The projection of accounts 580–598 was developed using both methods described under FERC Account Development above. For labor, accounts 586 and 597 (operation and maintenance of distribution meters) were held equal to the 2010 Base and assuming that, with the new AMI meter, expenses would not increase in 2011. All other accounts received their allocated portion of the total 2011 labor projection based on actual 2010 labor. For non-labor, these accounts were projected to be equal to the 2010 Base adjusted by \$135,786 in account 589 for its portion of the BLM rate increase for land rents, and by each account's allocated portion of the \$4,437,427 non-direct adjustment to non-labor O&M.

### **Customer Accounting and Customer Services and Information Expenses**

#### **FERC Accounts 901–905 and 907–912**

##### **Description**

Accounts 901 through 905 include the labor, materials used, and expenses incurred in the general direction and supervision of customer accounting and collecting activities, including reading customer meters, work on customer applications, contracts, orders, credit investigations, billing and accounting, collections, and complaints. These accounts also include the accounting for losses from uncollectible utility revenues. Accounts 907 through 912 include the labor and expenses incurred in customer service and informational activities to encourage safe and efficient use of the utility's service, to encourage conservation of the utility's service, and answer specific inquiries as to proper use of the service and equipment utilizing the service.

##### **Forecast Methodology**

**Accounts 901–905 and 907–912—Excluding Account 908.131 and 908.132, Idaho and Oregon Energy Efficiency Rider.** The projection of accounts 901–905 and 907–912, excluding the Idaho and Oregon Energy Efficiency Rider (energy efficiency expenses), was developed using both methods described under FERC Account Development above. For labor, these accounts received their allocated portion of the total 2011 labor projection based on actual 2010 labor. Additionally, account 902 was reduced by \$1,973,938 accounting for the savings attributable to AMI. For non-labor, these accounts were projected to be equal to the 2010 Base and by each account's allocated portion of the \$4,437,427 non-direct adjustment to non-labor O&M.

**Account 908.131 and 908.132—Idaho and Oregon Energy Efficiency Rider.** The expenses associated with the Idaho and Oregon Energy Efficiency Riders have been excluded from the 2011 test year in their entirety (IPUC Order No. 30189).

## **Administration and General Expenses (“A&G”)**

### **FERC Accounts 920–935**

#### **Description**

Accounts 920 through 935 include activities undertaken in connection with the utility’s general and administrative operations that are assignable to specific administrative or general departments and are not specifically provided for in other accounts. A&G accounts include: (1) compensation of officers, executives, and other employees of the utility which are properly chargeable to utility operations but not chargeable directly to a particular operating function, (2) office supplies and expenses, (3) fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function, (4) insurance or reserve accruals to protect the utility against losses and damages to owned or leased property used in its utility operations, (5) payments for employee accident, sickness, hospital, and death benefits or insurance, (6) payments to municipal or other governmental authorities, (7) the cost of materials, supplies, and services furnished to such authorities without reimbursement in compliance with franchise, ordinance, or similar requirements, (8) expenses incurred by the utility in connection with formal cases before regulatory commissions or other regulatory bodies, (9) regulatory fees assessed against the utility, (10) commission expenses, (11) payments made to the United States for the administration of the Federal Power Act, (12) materials used and expenses incurred in advertising and related activities, (13) rents properly includable in operating expenses for the property of others used, occupied, or operated in connection with customer accounts, customer service, and informational sales and general and administrative functions of the utility, and (14) operation and maintenance of transportation equipment and the maintenance of utility property which is not chargeable directly to a particular operating function.

#### **Forecast Methodology**

**Accounts 920–935—Excluding Account 920.001, Incentive Expense, 926.203, 926.204, 926.205, Pension Expense and part of 928.202, 928.203, and 928.303, Regulatory Commission Expenses.** The projection of accounts 920–935, excluding incentive, was developed using both methods described under FERC Account Development above. For labor, these accounts received their allocated portion of the total 2011 labor projection based on actual 2010 labor. For non-labor, these accounts were projected to be equal to the 2010 Base adjusted upward by \$155,201 in non-recurring amortization of the FERC OFA refund in account 928, and by \$128,026, \$12,173 and \$4,070 increase in accounts 921, 931 and 935, respectively for their portion of the BLM rate increase for land rent. These accounts also received each account’s allocated portion of the \$4,437,427 non-direct adjustment to non-labor O&M.

**Account 920.001—Incentive Expense.** In the 2008 Idaho General Rate case order (IPUC Order No. 30722) the Commission directed IPC to only include a normalized incentive that “is directly related to improving service or reducing costs to customers.” IPC therefore, included in its projection only the normalized level of incentive attributable to Customer Satisfaction and Reliability. As a result, for the 2011 test year, IPC removed its entire 2010 actual incentive expense of \$16,398,839 from its 2010 Base and replaced that amount with its projected 2011 normalized incentive of \$6,680,748 that includes only those elements related to Customer Satisfaction and Reliability. This resulted in a net reduction for incentive expense of \$9,718,091.

**Accounts 926.203, 926.204, and 926.205—Pension Expense.** For the Oregon jurisdiction the IPC's actuary (Milliman, Inc.) provided a total 2011 net periodic pension expense estimate (SFAS 87) of \$27,954,213 of which Oregon's allocated portion is \$893,024. This is an \$8,788 increase over the amount included in the 2010 Base.

In the Idaho jurisdiction, per IPUC Order No. 31091, IPC is currently recovering \$5,416,796 of its cash contributions to its defined benefit pension plan over a one-year period that began in June 2010. As a result of this Order, included in the 2010 Base is seven months of amortization expense for \$3,159,800. IPC is including in its forecast the additional five months of amortization for \$2,256,996. In addition, IPC has requested in Case No. IPC-E-11-04 recovery of an additional \$11,736,917 for cash contributions made in 2010 which is also included in the forecast, bringing the total requested recovery amount for the Idaho jurisdictional cash payments to \$17,153,713. Therefore, IPC has included in its forecast adjustment an additional \$13,993,913 in amortization expense for 2011.

Since the FERC jurisdiction follows the Idaho jurisdiction for treatment of its portion of pension expense (cash basis), IPC has included an additional \$129,964 in amortization in its estimate above the existing \$60,986 that is included in the 2010 Base.

**Account 928—Regulatory Commission Expenses.** This account was increased by \$155,201 due to three months fewer amortization periods for the amortization of the reimbursement of FERC OFA (IPUC Order No. 30722) than what was in 2010 actuals. This account was also increased for intervenor funding by \$160,478 that was directed in IPUC Order Nos. 30978, 30722 and 30892 for \$4,379, \$49,936, \$41,041, respectively and OPUC Order Nos. 11-011 and 10-406 for \$32,350 and \$32,772, respectively. IPC has assumed a one year amortization for intervenor funding. Account 928 also received its allocated portion of the \$4,437,427 non-direct adjustment to non-labor O&M.

**Accounts 908.131 and 908.132—Idaho and Oregon Energy Efficiency Rider Expenses.** The amounts in these accounts have been removed from the test year in their entirety per IPUC Order No. 30189.

## Forecast Adjustment E—Depreciation and Amortization Expense

Table 6—FERC Accounts 403 and 404

### *Description*

Account 403 includes depreciation expense for all classes of depreciable electric plant in service except such depreciation expense as is chargeable to clearing accounts or to account 416, Costs and Expenses of Merchandising, Jobbing and Contract Work. Account 404 includes amortization charges applicable to amounts included in the electric plant accounts for limited-term franchises, licenses, patent rights, limited-term interest in land, and expenditures on leased property where the service life of the improvements is terminable by action of the lease. The charges to this account are such as to distribute the book cost of each investment as evenly as may be over the period of its benefit to the utility.



## **Forecast Methodology**

Forecast Adjustment E increases Depreciation and Amortization Expense (accounts 403 and 404) by \$4,974,317 above the 2010 Base

Depreciation and amortization rates were applied to the monthly estimated plant balances (see the Electric Plant in Service discussion in the Rate Base Components section). The depreciation rates authorized by both OPUC Order No. 09-317 and IPUC Order No. 30639 were used for the entire 2011 test year. Several FERC plant accounts have sub-accounts, for which the individual sub-account data was used to calculate a composite rate and applied at the major account level.

For plant accounts 392, Transportation Equipment; 396, Power Operated Equipment; 312, Boiler Plant Equipment; and 397, Communication Equipment, either all or part of the depreciation expense is recorded to other accounts and not account 403. The account 312, Boiler Plant Equipment, and account 397, Communication Equipment, depreciation amounts were calculated using the actual 312.300 and 397.300 accrual for December 2010.

## **Forecast Adjustment F—Electric Plant/Regulatory Assets—Amortization, Adjustments, Gains and Losses**

Table 6—FERC Accounts 406, 411.6, and 411.7

### **Description**

Account 406 is debited or credited, as the case may be, with amounts includable in operating expenses, pursuant to approval or order of the Commission, for the purpose of providing for the extinguishment of the amount in account 114, Electric Plant Acquisition Adjustments. Accounts 411.6 and 411.7 includes, as approved by the Commission, amounts relating to gains and losses from the disposition of future use utility plant, including amounts which were previously recorded in and transferred from account 105, Electric Plant Held for Future Use.

### **Forecast Methodology**

Forecast Adjustment F is \$0, resulting in the Amortization of Electric Plant Acquisition Adjustments (account 406) and Gains and Losses from Disposition of Utility Plant (account 411.6 and 411.7) remaining the same as the 2010 Base.

Account 406 is projected for 2011 to remain the same as the 2010 Base. Included in this account is the amortization of the Prairie Power acquisition adjustment of account 114 over 233 months at \$1,894 per month. The amount in account 114 will be fully amortized in July 2012.

Accounts 411.6 and 411.7 do not have a forecast since there is no plan to sell utility plant in 2011.

## Forecast Adjustment G—Regulatory Debits and Credits

Table 8—FERC Account 407.3

### **Description**

Account 407.3 is debited, when appropriate, with the amounts credited to account 254, Other Regulatory Liabilities, to record regulatory liabilities imposed on the utility by the ratemaking actions of regulatory agencies. This account is also debited, when appropriate, with the amounts credited to account 182.3, Other Regulatory Assets, concurrent with the recovery of such amounts in rates.

### **Forecast Methodology**

Forecast Adjustment G increases Regulatory Debits (account 407.3) by \$5,802 above the 2010 Base.

IPC has recorded a regulatory asset in account 182.339 for the “capitalized” portion of the net periodic pension costs since August 2007. This capitalized portion is comprised of the Oregon jurisdictional share of net periodic pension cost for each year multiplied by that year’s capitalization percentage, which is determined based on an analysis of the year’s labor costs to determine the percentage of those costs that were ultimately recorded to construction. The capitalization percentage for 2010 was approximately 30.57 percent, which is the assumed percentage for 2011 and 2012. IPC projects a balance for the Oregon capitalized pension costs of \$1,323,161 by December 31, 2011. As a result of the capitalized balance, IPC has estimated the amortization of this amount in account 407.3 to be \$27,757 for 2011, an increase of \$5,802 over the 2010 Base.

## Forecast Adjustment H—Taxes Other than Income Taxes

Table 7—FERC Account 408.1

### **Description**

Account 408.1 includes those taxes other than income taxes which relate to utility operating income. This account is maintained so as to allow ready identification of the various classes of taxes relating to utility operation, plant leased to others, and other operating income.

### **Forecast Methodology**

Forecast Adjustment H increases Taxes Other Than Income (Accounts 408.1) by \$3,454,070 above the 2010 Base.

The 2011 forecast methodology for Taxes Other Than Income Taxes was based on a combination of known adjustments arising from specifics of the particular account activity and a carry forward of the 2010 Base amounts.

## Real and Personal Property Taxes

The Idaho property taxes were \$10.9 million, \$12.6 million, and \$14.9 million in 2008, 2009 and 2010, respectively. The property tax increases can be attributable to the increase in market value determined by the Idaho Tax Commission (a result from an increase in utility plant investment along with an increase in net operating income), an increase in local taxing districts budget requirements and a shift in tax burden (residential home values declining).

The methodology used to project property taxes for the 2011 test year is the same estimation process used for establishing the annual property tax accrual for IPC financial statements. Property taxes are estimated using both an appraisal and levy methodology. For the appraisal methodology, actual appraisal data is used to the extent known and each state's historical appraisal methodologies and trends are used in determining the appraisal amount. For the tax levy methodology, the state's historical levy data and local government budget policy is used to estimate levies.

## Idaho kWh Taxes

Test year 2011 kWh taxes were projected based on normalized hydro conditions and normalized consumption.

## Regulatory Commission Fees

The 2011 Idaho regulatory fee was estimated by using the 2010 actual payment. IPC's intrastate gross revenue and the governor's budget recommendation was within 1% of prior year therefore, it was determined the 2010 Base was an appropriate estimate for 2011. The Oregon regulatory fee consists of two fees, Oregon PUC fee and Oregon Department of Energy fee. For the test year 2011, the Oregon PUC fee was the actual 2011 fee and for the Oregon Department of Energy fee, the 2011 estimate was based upon prior year's tax rate multiplied times the current year revenue.

## Licenses

The 2011 Wyoming license was estimated using the prior year's tax rate applied to the estimated 2011 Wyoming assessed value. The 2011 Shoshone-Bannock license fee was estimated using the prior year's actual.

## Franchises

The Oregon franchise tax was determined by applying a city franchise rate to its corresponding electric revenue. For 2011, each cities applicable tax rate was applied to estimated city revenue.

## Forecast Adjustment I—Idaho Energy Resources Co. ("IERCO") Cost of Service Components

FERC Accounts 418.1 and 419

### **Description**

Account 418.1 includes the utility's equity in the earnings or losses of subsidiary companies for the year. Account 419 includes interest revenues on securities, loans, notes, advances, special deposits, tax refunds, all other interest-bearing assets, and dividends on stocks of other companies, whether the securities on which the interest and dividends are received are carried as investments or included in sinking or other special fund accounts.

### **Forecast Methodology**

Forecast Adjustment I decreases Idaho Energy Resources Co. ("IERCO") Cost of Service Components (Accounts 418.1 and 419) by \$945,499 below the 2010 Base of \$7,575,497 resulting in a projected 2011 net income of \$6,629,998.

IPC owns 100% of Idaho Energy Resource Company ("IERCO"), which has a one-third joint venture interest in Bridger Coal Company ("BCC"), a mine that supplies coal to the Jim Bridger plant. PacifiCorp, Inc. owns the remaining two-thirds interest and is the mine's operating partner. As a one-third owner in BCC, IERCO is entitled to one-third of the BCC net income and cash flows.

The projected 2011 net income of \$6,629,998 incorporates PacifiCorp's projected activity for the BCC mine. IERCO's overriding royalties are determined by the location and lease under which BCC is mining. The three leases are with the BLM, Union Pacific Railroad, and State of Wyoming, and each lease pays at a different rate. The overriding royalty was granted to BCC from IERCO, who in turn received them from IPC as advance royalties in the past. Coal royalty payments have no impact on IERCO's net income as revenue is recognized when paid by BCC, and expense recognized when remitted to IPC.

Income taxes are calculated at the federal tax rate of 35% as Wyoming has no state income tax. Taxes are accrued and paid during the calendar year.

As discussed in the Rate Base Components section that follows, IERCO maintains an intercompany note with IPC that accrues interest monthly at IPC's short-term borrowing rate, which is projected to be .75% in 2011. For purposes of the Cost of Service Component of IERCO, the intercompany interest expense net of income tax is added back to increase IERCO's net income.

## RATE BASE COMPONENTS

### Forecast Adjustment J—Electric Plant in Service

Table 1—FERC Account 101

#### **Description**

This account includes the original cost of electric plant that is included in accounts 301 to 399 (referred to herein as plant accounts). It is described as being owned and used by the utility in its electric utility operations and having an expectation of life in service of more than one year from date of installation, including such property owned by the utility but held by nominees. The cost of additions to and improvements of property leased from others, which are includable in this account, are recorded in subdivisions separate and distinct from those relating to owned property.

#### **Forecast Methodology**

Forecast Adjustment J increases Electric Plant In Service (Account 101) by \$165,872,190 above the 2010 Base. Electric Plant In Service has been presented using a thirteen-month average.

The methodologies used for plant additions and retirements are described below.

#### **Plant Additions to Electric Plant In Service**

Projected 2011 plant additions to Electric Plant In Service were developed based on the size of Construction Work in Process (“CWIP”) projects as of year-end 2010 plus the expected 2011 capital expenditures. These capital projects were segregated into pools of greater than and less than \$2 million. Capital projects greater than \$2 million were considered to be known and measurable. For capital projects less than \$2 million, an historical methodology was developed. Once CWIP project types for both pools were determined, the results were then combined and allocated to FERC plant accounts 301 through 399 using a five year historical average. This methodology is consistent with that used in Idaho’s 2008 General Rate Case (Case No. IPC-E-08-10) and Oregon 2009 General Rate Case (Docket No. UE 213).

#### **Projected 2011 Plant Additions**

**Capital Projects in Excess of \$2 Million.** Large capital projects with total costs in excess of \$2 million were determined to be known and measurable adjustments for the 2011 unadjusted test year. Actual capital expenditures in CWIP as of year-end 2010, plus expected 2011 capital expenditures were used in determining the amount that would close to plant by year-end 2011. Allowance for Funds Used During Construction (“AFUDC”) was accrued on the CWIP balances prior to their projected close. In addition, these projects’ capital account balances, projected expenditures, and the timing of closes to plant were reviewed by business unit managers familiar with the projects.

The total amounts for the plant additions in the pool of over \$2 million in capital expenditures were assigned CWIP project types based on the nature of each individual project.

**Capital Projects Less Than \$2 Million.** In recognition of the current uncertain market conditions, anticipated 2011 plant closings were set equal to actual 2010 plant closings for similar-sized projects.

The total amounts for the plant additions in the pool of under \$2 million in capital expenditures were then allocated to the CWIP project types based on a three-year historical average.

All vehicle purchases were considered in total as a single project for this purpose.

### **Allocation to FERC Plant Account**

The above CWIP project type pools were combined for final allocation to FERC plant accounts. For this allocation, actual final closings from CWIP account 107 into Electric Plant In Service, account 101 were analyzed for the five-year period 2005 through 2009. Final closing amounts in the PeopleSoft Asset Management system were used to allocate closings to plant accounts rather than pre-close amounts. Final closes represent the “as built” property units after the construction and work order has been completed and reconciled, whereas pre-closes are based on work order estimates and may not be reflective of the final close distribution. For each CWIP project type, the percentage allocation to FERC plant accounts 301 through 399 was determined by the ratio of the five-year historical plant account closing for that CWIP project type.

### **Retirements from Electric Plant In Service**

Retirements were analyzed for the five-year period 2005 through 2009. Retirements by FERC plant account were determined and compared to the closings by FERC plant account for the same period. Retirements by FERC plant account were estimated by calculating the historical percentage of retirements to additions for the five-year period.

The following FERC plant accounts have known retirement dates based on vintage layers and were not estimated:

- Account 302—Software
- Account 303—Franchises and Consents
- Account 391—Furniture
- Account 393—Stores Equipment
- Account 394—Shop Tools
- Account 395—Laboratory Equipment
- Account 397—Communication Equipment
- Account 398—Miscellaneous Equipment

## Forecast Adjustments K & L—Accumulated Provision for Depreciation and Amortization

Table 2—FERC Accounts 108 and 111

### **Description**

Account 108 is credited for amounts charged to account 403, Depreciation Expense, or to clearing accounts for current depreciation expense for electric plant in service. At the time of retirement of depreciable electric utility plant, this account is charged with the book cost of the property retired and cost of removal and then credited with the salvage value and any other amounts recovered such as insurance. When retired, costs of removal and salvage are originally entered in retirement work orders, the net total of such work orders may be included in a separate subaccount hereunder. Upon completion of the work order, the proper distribution to subdivisions of this account shall be made for general ledger and balance sheet purposes as a single composite provision for depreciation. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the functional classification of electric plant in service. Account 111 is credited with amounts charged to account 404, Amortization of Limited-Term Electric Plant, for the current amortization of limited-term electric plant investments.

### **Forecast Methodology**

Forecast Adjustments K & L increase Accumulated Provision for Depreciation and Amortization (Accounts 108 and 111) by \$63,737,756 and \$2,820,040 respectively, above the 2010 Base. The accumulated provision for depreciation and amortization has been presented using a thirteen-month average. The 2011 forecast was developed by first determining the 2010 monthly balances and then building upon that to determine the 2011 thirteen-month account balances. The process began with the year-end 2010 accumulated depreciation and amortization account balances which were rolled forward monthly using the estimated 2011 depreciation and amortization expense accruals, retirements, salvage, and removal costs. See account 403 and 404 in the Cost of Service Components section for discussion with respect to the depreciation and amortization accrual calculation and Electric Plant In Service, account 101 in the Rate Base Components section for discussion of the method of determining retirements. The five-year (2006–2010) average salvage, removal costs, and retirements were then calculated. The salvage and removal averages as a percentage of the retirement average were used to estimate monthly salvage and removal costs. Those amounts were allocated to the transmission and distribution FERC plant accounts in their respective ratio to estimated retirements.

## Forecast Adjustment M—Materials and Supplies

Table 3—FERC Accounts 154 and 163

### **Description**

Account 154 includes the cost of materials purchased primarily for use in the utility business for construction, operation, and maintenance purposes. Materials and supplies issued are credited hereto and charged to the appropriate construction, operating expense, or other account on the basis of a unit price determined by the method of inventory accounting. Account 163 includes the cost of supervision, labor, and expenses incurred in the operation of general storerooms, including purchasing, storage, handling, and distribution of materials and supplies. This account is cleared by adding to the cost of materials and supplies issued a suitable loading charge which distributes the expense equitably over stores issues. The balance in the account at the close of the year shall not exceed the amount of stores expenses reasonably attributable to the inventory of materials and supplies.

### **Forecast Methodology**

Forecast Adjustment M reflects a \$657,159 decrease in Materials and Supplies (accounts 154 and 163) below the 2010 Base.

The thirteen-month average decrease was due partially to a concerted effort to reduce inventories, as a result of the economic slow-down. Specifically, account 154.220 from the December 2009 to December 2010 decreased by \$1,481,473. Additionally, IPC over cleared overheads included in the 163 accounts by \$935,723. However, while the thirteen-month average reflects a decrease to rate base, the December 2011 year-end balance is expected to increase over the 2010 year-end balance by \$1,590,713 based on the following:

- M & S Steam Plant is forecasted to increase \$241,336 based on the January 2009 through February 2011 actuals.
- The new Langley Gulch gas plant is expected to cause an increase in inventories by \$250,000.
- Stores Expense Undistributed was increased \$1,071,985 to the amount forecasted by the Financial Stores Loading model at December 31, 2011. As stated above, the 2010 ending balance in these accounts was artificially low due to inventory issues being greater than projected in the fourth quarter 2010.
- Stores Expense Steam Plant is estimated to decrease \$495,149 based on trending actual month-end balances for the time period January 2009 through February 2011.
- The balance in the Sales Tax account (163500) is forecasted to increase \$522,541 due to the 2010 ending balance in this account being lower than required due to timing variances with issues and invoice processing.



## Forecast Adjustment N—Other Deferred Programs

Table 3—FERC Accounts 182.3 and 186

### **Description**

This account includes the amounts of regulatory assets not includable in other accounts resulting from the ratemaking actions of regulatory agencies.

### **Forecast Methodology**

Forecast Adjustment N increases Other Deferred Programs (Accounts 182.3 and 186) by \$146,580 above the 2010 Base.

#### **Accounts 186.722 and 186.770—American Falls Bond Refinancing, IPUC Order No. 25880.**

These deferred costs are financing costs related to American Falls Bond issuances. The total monthly amortization of these two bonds is \$5,212 per month or \$62,552 per year. IPC has reduced the 2010 Base for one year of additional depreciation for \$62,552, resulting in a total deferral of \$823,593.

**Account 182.349—Intervenor Funding, IPUC Order No. 30722.** This account includes intervenor funding ordered in the 2008 General Rate Case (Case No. IPC-E-08-10). In that case, IPC was ordered to pay the Community Action Partnership Association of Idaho (“CAPAI”) \$9,183 in costs as a result of their participation in the case. IPC has assumed a one-year amortization period for recovery of these costs in this case. This reduced the deferral by the 2010 Base of \$10,572 including accrued interest, resulting in a total deferral forecast of \$0.

**Account 182350—Intervenor Funding, IPUC Order No. 30722.** This account includes intervenor funding ordered in the 2008 General Rate Case (Case No. IPC-E-08-10). In that case, IPC was ordered to pay the Idaho Irrigation Pumpers Association, Inc. (“Irrigators”) \$30,817 in fees and expenses as a result of their participation in the case. IPC has assumed a one-year amortization period for recovery of these costs in this case. This reduced the deferral by the 2010 Base of \$35,480 including accrued interest, resulting in a total deferral forecast of \$0.

**Account 182.345—Citizens Utility Board (“CUB”) 2010 Funding Grant, OPUC Order No. 10-406.** IPC was ordered in Docket UM 1504(1) to fund \$30,000 to CUB pursuant to the terms of the Intervenor Funding Agreement by and among IPC and CUB and approved by the OPUC in Order no. 10-396. As a result, IPC has assumed a one-year amortization period for recovery of these costs in this case. This reduced the deferral by the 2010 Base of \$30,100 including accrued interest, resulting in a total deferral balance of \$0.

**Account 182.339—SFAS 87 Capitalized Pension Costs, OPUC Order No. 10-064.** IPC included a forecast adjustment of \$383,271 for its capitalized portion of its SFAS 87 Capitalized Pension Costs. This brings the total 2011 estimate to \$1,323,161.

**Account 182.369—Grid West Loans, OPUC Order No. 06-483.** IPC has included a reduction to its 2010 Base of \$14,191 for one year of additional amortization, bringing the test year deferral balance to \$44,937.

**Account 182.304—Grid West Loans, FERC Portion.** IPC has included a reduction to its 2010 Base for \$83,796 for one year of additional amortization, bringing the test year deferral balance to \$111,728.

## Forecast Adjustment O—Customer Advances for Construction (“CAC”)

Table 3—FERC Account 252

### *Description*

Account 252 includes advances by customers for construction which are to be partially or wholly refunded. When a customer is refunded the entire amount to which he or she is entitled according to the agreement or rule under which the advance was made, any remaining balance is credited to the appropriate plant account.

### *Forecast Methodology*

Forecast Adjustment O decreases the Customer Advances for Construction (Account 252) 2010 Base by \$6,304,446, based on an estimated thirteen-month average balance.

IPC investigated various methods to forecast this account, including the average dollar balance per customer methodology that was used in the 2008 Idaho General Rate Case (IPC-E-08-10) and Oregon 2009 General Rate Case (Docket No. UE 213). However, because of new Rule H changes this method became inaccurate. Therefore, IPC determined that because customer advances are driven primarily by customer growth, the most reasonable method was to start with the December 2010 Base for account 252, removing all balances related to Construction Work in Progress, then reducing the balance by the subdivision lots completed in 2006, as these will be either refunded or absorbed by the end of 2011. IPC then reduced the balance further by annualizing the 2010 lot refunds for work completed from 2007 to 2009 as the estimate for 2011 lot refunds that fall inside the 5-year period for refunds. This method reflects the IPC’s anticipation that market conditions in 2011 will be similar to those existing in 2010. Finally, IPC added in the estimated ending unusual conditions and network transmission upgrade balances. IPC’s removal of balances associated with Construction Work in Progress is because these should not be included to reduce rate base since Construction Work in Progress is not a rate-based item. Please see the analysis in the following table:

2011 Forecast of Customer Advances	Total
12/31/10 LXMN lot refund balance excluding net work transmission upgrades and unusual conditions	\$19,146,937
2006 lot refund balance to be refunded or absorbed in 2011	(4,497,506)
2011 estimated refunds estimated ending balances	(831,772)
Unusual conditions refunds estimated ending balance	973,225
Network transmission upgrades estimated balance excluding work in progress	837,500
<b>12/31/11 estimated customer advances excluding work in progress and unusual conditions</b>	<b>\$15,628,384<sup>1</sup></b>

<sup>1</sup> This amount represents the estimated year-end balance. IPC has estimated the thirteen-month balance of \$17,261,533 based on the shape of the 2010 actual thirteen-month average balance.

## Forecast Adjustment P—Idaho Energy Resources Co. (“IERCO”) Rate Base

Table 3—FERC Accounts 123.1, 186, and 145

### Description

Account 123.1 includes the cost of investments in securities issued or assumed by subsidiary companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement plus the equity in undistributed earnings or losses of such subsidiary companies since acquisition. This account is credited with any dividends declared by such subsidiaries. This account is maintained in such a manner as to show separately for each subsidiary: (1) the cost of such investments in the securities of the subsidiary at the time of acquisition, (2) the amount of equity in the subsidiary’s undistributed net earnings or net losses since acquisition, and (3) advances or loans to such subsidiary. Account 145 represents notes receivable from associated companies. Account 186 includes all debits not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses, not included in other accounts, which are in process or amortization and items the proper final disposition of which is uncertain.

### Forecast Methodology

Forecast Adjustment P increases Idaho Energy Resources Co. (“IERCO”) Rate Base (Account 123.1, 186 and 145) by \$154,130 above the 2010 Base.

IPC’s projected 2011 investment in IERCO is based on actual activity for 2010 at the Bridger Coal Company (“BCC”) mine that supplies coal to the Jim Bridger thermal plant. As a one-third owner in BCC, IERCO is entitled to 33% of the BCC net income and cash flows.

- **Account 123.1—Investment in IERCO.** The 2011 thirteen-month average investment in IERCO balance is projected to increase \$7,609,643 from the 2010 Base thirteen-month average balance of \$67,582,237 to \$75,191,880. IERCO’s investment in BCC is

accounted for using the equity method. BCC income, IERCO income, and IERCO capital contributions to BCC increase the investment balance; while BCC dividend distributions to IERCO reduce the investment balance. The \$7,609,643 increase is due to reinvesting one year worth of after tax earnings into BCC. No dividend assumptions were made during the forecast test year. Instead, any extra cash remaining after paying operating expenses and capital investment are returned to IPC via the intercompany note (see below for discussion of account 145—IERCO Intercompany Note).

- **Account 186—Prepaid Coal Royalties.** The 2011 thirteen-month average balance is projected to decrease \$68,132 from the 2010 Base thirteen-month average balance of \$1,464,357 to \$1,396,225. BCC overriding coal royalties are determined by the location and lease under which BCC is mining. The overriding royalty was granted to BCC from IERCO, who in turn received them from IPC as advance royalties in the past. Although coal royalty payments have no impact on IERCO's net income, because revenue is recognized when paid by BCC and expense recognized when remitted back to IPC, the payment flow serves to reduce the account 186 balance.
- **Account 145—Notes Payable To/Receivable from Subsidiary.** The 2011 thirteen-month average balance is projected to decrease \$7,387,381 from the 2010 Base thirteen-month average balance of \$19,880,651 to \$12,493,269. The IERCO intercompany note is the funding mechanism whereby IERCO not only receives distributions from and makes capital contributions to BBC, but also pays income taxes and dividends to IPC. The intercompany note activity is based on the projected 2011 BCC operating and capital budgets. Because capital expenditures have been leveling off, BBC is projected to have extra cash in 2011 to reduce the note balance. Interest on the intercompany note is based on IPC's short-term borrowing rates and accrues monthly. The average interest rate used is .75%.

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