

DECISION MEMORANDUM

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

FROM: LISA NORDSTROM

DATE: JULY 26, 2004

**RE: IN THE MATTER OF THE JOINT APPLICATION OF IDAHO POWER
COMPANY AND TAMARACK RESORT LLC FOR APPROVAL OF AN
AGREEMENT TO PROVIDE ELECTRIC DISTRIBUTION FACILITIES.
CASE NO. IPC-E-04-12.**

On May 5, 2004, Idaho Power Company (Idaho Power, Company) and Tamarack Resort LLC (Tamarack) jointly filed an Application requesting the Commission issue an Order approving an Agreement dated May 3, 2004, under which Idaho Power would provide certain electrical distribution facilities to Tamarack pursuant to a special line installation agreement. Idaho Power requested that this Application be processed by modified procedure.

BACKGROUND

Tamarack is developing a substantial four-seasons resort project ("Resort Project") in Valley County, Idaho. Tamarack has indicated that at final build-out, the Resort Project will be a complex featuring approximately 2,000 housing units, approximately 272,000 square feet of commercial space, a golf course, ski lifts and other recreational amenities. The Resort Project will have a combined electrical load of approximately 20 MW. Because final build-out is expected to take a number of years, Tamarack has requested that Idaho Power make 7.5 Megavolt-Ampere (MVA) of electrical capacity available to the Resort Project by November 1, 2004.

Because the Resort Project will be located in an area where Idaho Power does not have existing facilities of adequate capacity and desired phase and voltage, the delivery of power (capacity) to the Resort Project site will require the construction of (1) underground and overhead facilities and lines to interconnect with Idaho Power's existing transmission/distribution system ("Interconnection Facilities"), and (2) installation of additional

substation equipment and facilities (“the Substation Facilities”). The Interconnection Facilities and the Substation Facilities are collectively referred to as the “Requested Facilities.”

Rule H is the Company’s tariff provision that generally governs line extensions. By its terms Rule H does not apply to all line extensions, and the parties have agreed that this agreement is not subject to or governed by Rule H. However, the parties have agreed to use some of the principles contained in Rule H to address refunds of a portion of the contribution in aid of construction (“CIAC”) to be paid by Tamarack under the Agreement to Provide Electric Distribution Facilities between Idaho Power and Tamarack (“the Agreement”). Installation of distribution facilities within the boundaries of the Resort Project will be made in accordance with Rule H.

THE AGREEMENT

Construction of Facilities. The parties have agreed that the Requested Facilities will be constructed in two phases. Phase 1 Facilities have already been constructed and will provide not more than 2 MVA of three-phase power at a point of delivery located adjacent to the boundaries of the Resort Project. A general description of the Phase 1 Facilities is included as Exhibit 1 to the Agreement. Idaho Power completed Phase 1 construction in November 2003. Phase 2 construction will be performed during the 2004 construction season and will include the construction of the Requested Facilities to provide 7.5 MVA of electrical capacity at the Delivery Point. A general description of the Phase 2 Requested Facilities is included as Exhibit 2 to the Agreement. Phase 2 construction is expected to be completed by Idaho Power on or before November 1, 2004.

Cost of Facilities. The total estimated cost of the design and construction of the Requested Facilities is \$2,704,886. Assuming Tamarack makes all of its required payments on schedule, the contribution in aid of construction (“CIAC”) to be paid by Tamarack will not exceed \$1,891,372. Tamarack has paid Idaho Power \$1,055,375 for the Phase 1 Requested Facilities, and \$764,798 for Phase 2 Requested Facilities. As provided in the Agreement, Tamarack has agreed to pay Idaho Power an additional \$191,199 on or before October 1, 2004.

Vested Interest Refund Provisions. In order to supply 7.5 MW of electrical capacity to Tamarack with the power quality specifications requested by Tamarack, Idaho Power had to construct a portion of the Interconnection Facilities outside the Resort Project boundaries with a capacity greater than 7.5 MVA. Tamarack will not be entitled to use more than 7.5 MW

of capacity in the Interconnection Facilities. Because the Requested Facilities, funded in part by the CIAC Tamarack is making, will create additional capacity that can be used to serve future customer loads, the Company has agreed to collect contributions from other customers attaching to facilities who utilize the Requested Facilities to receive electric service. These contributions will be in the form of vested interest refunds and line capacity charges. Portions of the Interconnection Facilities subject to vested interest refunds and the maximum refund dollar amounts are described more particularly in the Agreement. Vested interest refunds will be collected for a 10-year period following the completion of the Phase 2 Requested Facilities.

Line Capacity Charges. In order to equitably share the cost of the facilities for which Tamarack is providing a substantial CIAC, Idaho Power has agreed to collect a line capacity charge from all other customers attaching to facilities that utilize the Requested Facilities to receive electric service. Line capacity charges would be assessed, collected and refunded to Tamarack as follows:

- (a) Idaho Power will inventory all lots that are currently being “served” but are not connected that might attach to facilities that will utilize the Requested Facilities to receive electrical service. These are the lots where the customer(s) have previously paid to install facilities to receive power on the lots, but the lots have not been connected. Capacity has previously been reserved for these lots, and customers have been advised that power is readily available to their lot. These lots will be exempt from paying the line capacity charges.
- (b) Schedule 01, Residential, and Schedule 01, Non-Residential Customers (or their successor schedules) would pay \$800 per connection.
- (c) Customers receiving service under Schedules 7, 9, 19, 24, 45 and 46 (or their successor rate schedules) would pay \$40 per kW of connected load.
- (d) Line capacity charges will be collected for a period ending five (5) years after the completion of the Phase 2 Requested Facilities, currently scheduled for November 1, 2004.
- (e) Line capacity charges collected by Idaho Power will be paid to Tamarack on a quarterly basis without interest.
- (f) Planned developments such as subdivisions will pay line capacity charges at the time of the application (when the lots are “served”) and not at the time of the physical power connection to the individual lot.

- (g) Cash allowances through Rule H would not be applicable to reduce line capacity charges.

Limit On Aggregate Line Capacity Charges and Vested Interest Charges.

Collections and refunds for both line capacity charges and vested interest payments will cease when Tamarack has been refunded 80% of the total amount Tamarack has paid for distribution facilities. Idaho Power will include the tax gross-up portion of Tamarack's payments in the amount subject to refund to Tamarack. The total amount that could be refunded to Tamarack from vested interest payments and line capacity charges would be \$1,075,571.

Substation Facilities. Tamarack will pay Idaho Power \$546,909 for substation capacity of 7.5 MW (2.5 MW for Schedule 19 load and 5 MW for non-Schedule 19 load). The prorated share for the non-Schedule 19 load of \$364,606 ($5000 \text{ kW} / 7500 \text{ kW} = 67\% \times \$546,909$) is eligible for refund. Refunds will be available for a 10-year period following the completion of the Phase 2 Requested Facilities. Idaho Power will pay Tamarack \$73 per kW of load (based on estimated demand) for facilities installed within the Resort Project boundaries and taking service under Rate Schedules 01, 07, 09, 24, 45 and 46. The demand amount used for refunding purposes will include a diversity factor and will be equivalent to the demand on the substation. The estimated demand for a subdivision lot will be 10 kW per lot for a refund amount of \$730 per lot. Substation refunds to Tamarack will be made after the final 2004 payment, and only after the completion of the individual distribution work orders have been completed. These refund payments will be made without interest and with a maximum refund payout of \$364,606.

STAFF COMMENTS

Staff believes that the uniqueness of Tamarack's situation warrants a special agreement to provide Interconnection and Substation Facilities. The Agreement generally follows the guidelines of Rule H, but deviates appropriately in order to achieve greater fairness in terms of the cost responsibilities of the various customers who will eventually utilize the facilities. Staff has carefully reviewed the terms of the Agreement and recommends approval.

PUBLIC COMMENTS

The Commission received 11 public comments on the Joint Application. The comments generally requested that Idaho Power bury the overhead transmission lines that will serve Tamarack Resort preserve the environment, scenic views, recreational opportunities, customers' health, and adjacent landowners' property values. Several commentators noted that

burying the lines in the McCall-Donnelly-Tamarack area would likely decrease winter outages due to heavy snowfall. Only four commentors addressed who would pay the additional cost necessary to bury the transmission lines: three suggested Tamarack pay to bury lines and one indicated the “city who the lines are built for can cover the costs.”

IDAHO POWER REPLY COMMENTS

On July 22, 2004, Idaho Power filed Reply Comments in response to several public comments received by the Commission that addressed the following issues:

Planning for Increased Loads in Valley County: The Company’s 1999-2000 planning study of the Donnelly/McCall area considered existing and future loads, right-of-way requirements, environmental considerations, the location of existing facilities and the overall cost in determining the most suitable means of providing existing and future electrical service in Valley County. After considerable analysis, the Company determined that the West Mountain Road corridor was part of the best route to provide the projected electrical loads and that the former railroad right-of-way would be part of the 138-kV transmission loop needed within the Donnelly/McCall area.

Underground Transmission Facilities: Idaho Power does not own or operate any underground transmission facilities. Installing of underground transmission facilities is generally five to ten times more costly than placing the same facilities overhead. To provide safe and reliable electrical service to its customers at the least cost Idaho Power has not buried its transmission facilities.

The 138-kV transmission line between Donnelly and McCall will be approximately 12 miles long. According to Idaho Power, a rule-of-thumb estimate for the cost of overhead construction of a transmission line of the type currently contemplated for the 138-kV Donnelly/McCall line is approximately \$250,000 per mile or a total cost of approximately \$3 million. Using the above-referenced five to ten-times multiplier means that constructing the McCall/Donnelly 138-kV line underground would cost approximately \$15 to \$30 million depending on the topography of the route. Idaho Power would not voluntarily incur these additional costs. However, if a majority of Valley County residents prefer that transmission facilities in the Donnelly/McCall area be buried, the Company is willing to do so provided that the additional cost incurred by the Company to place those facilities underground is borne by the residents of Valley County and not the Company’s customers generally. When certain of the

Company's customers determine that for aesthetic reasons the Company should conform to unique construction standards that are substantially more expensive than the ordinary standards in place in the balance of the Company's service territory when these unique standards do not measurably increase system safety and reliability, the Company believes that it is inequitable for the Company's ratepayers as a whole to absorb the increased cost.

Idaho Power believes overhead transmission facilities can be built between McCall and Donnelly within the former railroad corridor that is sensitive to the natural features of the area. The use of either wood poles or rust-colored, weathered steel poles would blend in with the trees located along and through this corridor. Furthermore, transmission poles can generally be placed farther apart which also reduces the visual impact.

Underground Distribution Facilities: With respect to the distribution line on West Mountain Road, Idaho Power occasionally builds underground facilities rather than overhead facilities if it is more cost-effective to do so. In this specific instance, Idaho Power applied the most cost-effective solution possible to serve the Tamarack Resort load and to enhance the reliability of the distribution feeder circuit in the area. In a one-mile section through Forest Service land, it was more cost-effective for the Company to bury the distribution line. In that mile, insufficient right-of-way width existed to allow economical construction of an overhead distribution line. Because of the constrained width of that right-of-way, the Company would have been required to construct self-supporting structures to accommodate the required turns in an overhead line.

Using self-supporting structures would have been more costly than burying the line for the length of the segment located within the narrower right-of-way. As a result, the Company elected to bury a portion of the distribution circuit serving the Tamarack Resort and other loads in the area. Had sufficient right-of-way existed or been available, it would have been more cost-effective for the Company to construct that portion of the system in an overhead configuration.

Idaho Power believes the overhead distribution facilities built within the West Mountain Road corridor are sensitive to the natural features of the area. The wood poles will blend in with the trees located along and through the corridor.

O&M Expense of Underground vs. Overhead Lines: Several of the comments received by the Commission stated that reduced O&M expense would justify more expensive underground construction. Recent industry surveys of utility experience with underground

electrical lines have indicated that underground facilities are not a cure-all for siting and reliability concerns. In general, underground lines are equally reliable as overhead lines and are subject to a somewhat different set of threats. Underground lines have a slightly lower frequency of failures; however, that benefit is offset by a much longer duration of an outage until the failure can be located and repaired. Operational expenses are generally similar. Expenses incurred to repair line failures are significantly higher for underground lines. Idaho Power noted that accumulating evidence indicates that the life of underground line may be significantly less than an overhead line because of the degradation of the underground line's insulation. The difference may be a useful life of 30 years for underground facilities compared to a known useful life of 50 years or more for overhead lines.

Tree Maintenance Policies: Idaho Power also addressed the concerns raised by one commentor regarding the Company's tree maintenance practices. After explaining its policies and procedures, Idaho Power noted that its line-clearing and vegetation management work in the Donnelly/McCall area has been very successful and that the Company has historically received very few complaints from customers in this area concerning its line-clearing efforts.

COMMISSION DECISION

Does the Commission wish to approve the Joint Application of Idaho Power Company and Tamarack Resort LLC for an Agreement to provide electric distribution facilities?



Lisa Nordstrom

M:IPCE0412_in2