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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-08-16
A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO)
INSTALL ADVANCED METERING)
INFRASTRUCTURE ("AMI") TECHNOLOGY)
THROUGHOUT ITS SERVICE TERRITORY)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

1 Q. Please state your name and business address.

2 A. My name is John R. Gale and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. By whom are you employed and in what
5 capacity?

6 A. I am employed by Idaho Power Company ("the
7 Company") as the Vice President of Regulatory Affairs.

8 Q. Please describe your educational background
9 and business affiliations.

10 A. I received a BBA in 1975 and an MBA in 1981
11 from Boise State University. I maintain a close
12 affiliation with the university and serve on the College of
13 Business and Economics' Advisory Council and on the Board
14 of Directors of the Alumni Association. I have also
15 attended the Public Utilities Executive Course at the
16 University of Idaho and am now on the faculty of that
17 program covering "Regulation and Ratemaking."

18 I am an active member of the Edison Electric
19 Institute's Rates and Regulatory Affairs Committee, which
20 is the committee that is concerned primarily with
21 regulatory issues and ratemaking methods. I am the current
22 Chair of this committee.

23 Q. Please describe your work experience.

1 related to the economic regulation of Idaho Power Company.
2 I have testified frequently before the Idaho Public
3 Utilities Commission ("the Commission") on a variety of
4 rate and regulatory matters. I have also testified before
5 or submitted direct testimony to the regulatory commissions
6 in Nevada and Oregon, the Federal Energy Regulatory
7 Commission ("FERC"), the Bonneville Power Administration,
8 and the United States Senate Committee on Energy and
9 Natural Resources.

10 Q. What is the purpose of your testimony in
11 this matter?

12 A. My testimony will cover regulatory policy
13 issues related to deployment of Advanced Metering
14 Infrastructure ("AMI") on Idaho Power Company's system.
15 These issues include: (1) the decision to pursue a
16 Certificate of Public Convenience and Necessity ("CPCN")
17 for the AMI investment, (2) a discussion of the past
18 interaction, reports, and Commission orders on the subject,
19 (3) the desired regulatory treatment of an AMI investment,
20 and (4) the importance of Commission support of AMI cost
21 recovery on the timing of Company investments in AMI.

22 Q. Please provide an overview of the Company's
23 AMI filing.

1 data management software.

2 In Case No. IPC-E-02-12, a docket opened to
3 investigate TOU pricing for residential customers, the
4 Commission ordered Idaho Power to complete a full AMR
5 installation by 2004. The implementation was subsequently
6 postponed due to a number of financial, technical, and
7 implementation problems encountered with meeting the time
8 frame.

9 The Commission then adopted a phased-in
10 implementation along with a collaborative evaluation
11 approach, while directing the Company to continue to work
12 towards implementation of AMI technology "as soon as
13 possible." The Commission has continually stated that
14 Idaho Power should be working toward the implementation of
15 AMI technology as soon as possible and has reiterated its
16 finding in Order No. 30102 that "the potential benefits of
17 advanced metering to ratepayers and the Company are too
18 great to delay AMR implementation indefinitely."

19 Q. What is the desired regulatory treatment of
20 the procurement and deployment of AMI?

21 A. As previously stated, Idaho Power has been
22 assessing the value that AMI could bring to its customers
23 for a number of years. As noted in the Company's AMI
24 compliance report dated August 31, 2007, Idaho Power plans

1 a three-year deployment of AMI across its entire system
2 beginning in 2009. The report, titled *Advanced Metering*
3 *Infrastructure (AMI) Implementation Plan*, is Exhibit No. 1.
4 On page 4 of that report the Company articulates its
5 regulatory needs for an AMI implementation. They are: (1)
6 a three-year depreciation of the meters and metering
7 equipment that AMI will replace, (2) the recovery of new
8 metering equipment as it is placed in service and the
9 capture of Operating and Maintenance ("O&M") benefits as
10 they begin to occur, and (3) the establishment of
11 appropriate depreciation rates for AMI equipment.

12 Q. Please expand on the importance of each of
13 these regulatory needs.

14 A. The accelerated depreciation of the old
15 metering equipment with corresponding rate recovery is a
16 fundamental assumption in the Company's financial analysis
17 of the AMI deployment. Idaho Power desires to have the
18 metering equipment fully depreciated at the time the
19 deployment is complete, thus avoiding a stranded asset
20 situation and the possibility of used and useful concerns.

21 The revenue requirement associated with the
22 installation of AMI includes the return on and return of
23 the investment in metering equipment less the offsetting
24 O&M benefits that will accrue as a result on AMI

1 deployment. Timely rate adjustments that recognize the
2 combined impact will support the Company's financing
3 requirements as it continues to fund significant
4 investments in system infrastructure.

5 The third item - the appropriate depreciation rates
6 for the new AMI equipment - will be addressed as part of
7 the Company's concurrent depreciation case that is before
8 this Commission, Case No. IPC-E-08-06.

9 Ideally, the Company would have included the revenue
10 requirement impacts of the first year of the deployment in
11 its current general rate case, Case No. IPC-E-08-10;
12 however, due to timing of the vendor Request for Proposals
13 and the ultimate awarding of contracts, the Company was
14 unable to have cost information in time for the general
15 rate case filing.

16 Q. Why is AMI cost recovery important to Idaho
17 Power?

18 A. AMI implementation will bring customer
19 operational benefits and provide a foundation for customer
20 information, programs, and dynamic pricing. For these
21 reasons, Idaho Power finds it reasonable to pursue full
22 implementation of AMI staged over three years. However,
23 the significant customer and economic growth that the
24 Company has been experiencing requires continued

1 investments in infrastructure to connect and meet the
2 energy needs of these customers. Additionally, there is an
3 ongoing need to replace existing infrastructure to continue
4 to reliably serve existing loads. Although AMI will
5 provide benefits to customers, it is not an investment that
6 is necessary for Idaho Power to fulfill its obligation to
7 meet new and existing service requirements. Accordingly,
8 Commission support of AMI cost recovery is an important
9 factor in the Company proceeding with implementation.

10 Q. What are your plans to address AMI cost
11 recovery outside the general rate case?

12 A. Providing the Commission issues a favorable
13 order in the current CPCN request, the Company will bring a
14 separate filing before the Commission to address the cost
15 recovery aspects of AMI. The Company will propose a
16 parallel cost recovery track to the general rate case and
17 attempt to time the 2009 AMI rate adjustments to coincide
18 with the results from the general rate case.

19 Q. Is it your opinion that the granting of the
20 relief proposed by the Company is in the public interest?

21 A. Yes. The proposed relief proposed by Idaho
22 Power will allow the Company to comply with the
23 Commission's directives regarding AMI and to continue
24 providing safe, reliable service at reasonable rates while

1 maintaining its financial health.

2 Q. Does this conclude your testimony?

3 A. Yes, it does.

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-08-16

IDAHO POWER COMPANY

**GALE, DI
TESTIMONY**

EXHIBIT NO. 1



IPC-E-06-01

Advanced Metering Infrastructure (AMI) Implementation Plan

Presented by Idaho Power Company
to the Idaho Public Utilities Commission

August 31, 2007

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Implementation Plan

1. Introduction and Purpose

Idaho Power Company (IPC) has fully analyzed the costs and benefits of implementing AMI¹ throughout the remaining portions of its service territory. Based on this analysis, IPC proposes to install an AMI system covering roughly 99% of the customers in the service territory and proposes to do so by the end of 2011.

This report, supplemental to IPC's AMI Status Report filed on May 1, 2007, provides:

- A summary of the financial analysis
- An AMI implementation plan for the service territory
- A discussion for cost recovery
- Identification of the remaining issues

2. Financial Assumptions and Analysis Results

IPC's financial analysis compares the forecasted cost associated with the current meter reading operations to the forecasted costs associated with operations utilizing AMI. The analysis includes all components and costs associated with replacing existing metering equipment with advanced metering infrastructure capability. Included in these costs are metering and communication equipment, amortization of the undepreciated investment in the existing meters, reductions in Operations and Maintenance (O&M) expenses related to operational savings, AMI benefits, and costs of implementation.

A. 2007 Analysis Assumptions

The 2007 financial analysis is based on the following assumptions:

- The analysis covers a 30-year time frame.
- The meter count (i.e., number of customers) increases yearly by our current load forecast projections.
- The operation and maintenance costs and operational savings (including labor) escalate yearly based on Idaho Economics' CPI forecast.

¹ The term AMI refers to systems that measure, collect, and analyze energy usage information from advanced metering devices through various communication media on request or on a pre-defined schedule. This infrastructure includes hardware, software, communications equipment, customer associated systems, and data management software.

- Current productivity levels remain constant.
- Income Tax Rates are based on 2006 amounts.
- Property and Insurance Rates are based on 2006 amounts.
- The present value calculations are based on IPC's actual 2006 after-tax weighted average cost of capital.
- The book value of the existing meters is amortized over the three-year implementation schedule.
- The AMI meters have a 15-year life.
- Current meters have a 30-year life.
- All equipment is replaced at the end of its useful life.
- Replacement costs of meter equipment is at today's costs.

The results of the financial analysis indicate that the long-term benefits derived from reduced operating expenses are sufficient to support a decision to move forward with AMI implementation. Although the analysis indicates that implementation of AMI will increase IPC's revenue requirement in the early years, it is expected that the long-term benefits of reduced expenses plus additional benefits not yet identified or quantified will result in net benefits in the long term. For these reasons, IPC believes it is reasonable to proceed with AMI implementation.

3. Implementation Plan

Numerous factors were considered in developing the AMI implementation plan. The primary factors IPC considered were (in no particular order):

- Impact on revenue requirement
- Impact on existing employees
- Operational savings
- Impact on annual capital requirements
- Other major capital requirements needed to reliably serve existing customers
- Areas with high growth (new meters)
- Base of implementation logistics

Based on a consideration of these factors, IPC has determined that a 3-year AMI implementation plan is reasonable. Work on the project would actually begin in 2008 with such tasks as pre-implementation planning, execution of contracts, ordering of long-lead materials, and installation of some communication equipment. Table 1 shows the year when AMI would be implemented in each regional area.

Table 1. AMI Implementation Time Schedule.

Year	Area of Implementation
2009	Capital Region (Boise, Meridian, Eagle, Kuna, etc.)
2010	Canyon Region and Payette Region (Nampa, Caldwell, Payette, Ontario, etc.)
2011	Southern Region and Eastern Region (Twin Falls, Hailey, Jerome, Pocatello, Salmon, etc.)

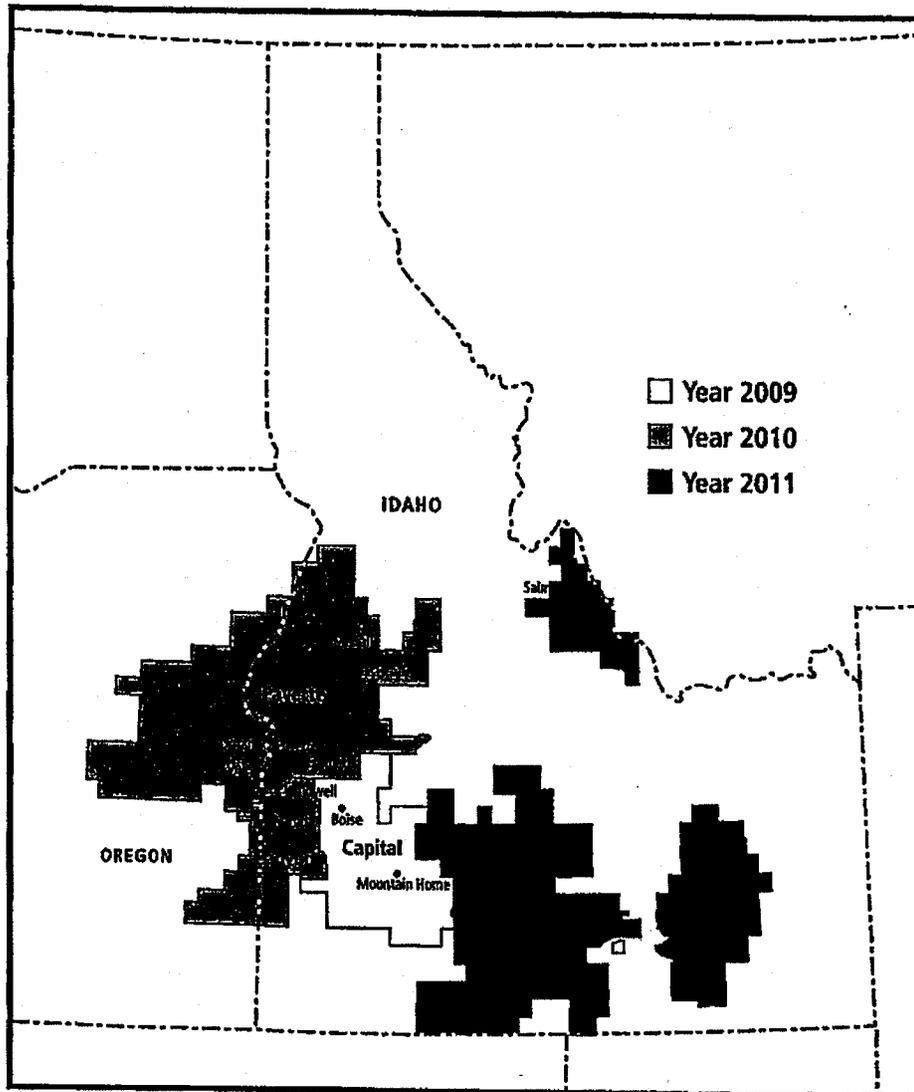


Figure 1. Idaho Power Company's Regional Implementation Map.

4. Cost Recovery

As referenced in IPC's May 1, 2007, AMI Status Report, implementation of AMI will provide customers increased benefits compared to the current operational practice of manually reading meters. In addition, AMI will create the foundation for the ability to offer customers pricing options and additional information about their energy consumption, which may lead to additional future benefits. For these reasons, IPC believes it is reasonable to pursue full implementation of AMI staged over a three-year period. However, the significant customer and economic growth IPC has been experiencing requires continued investments in infrastructure to connect and meet the energy needs of these customers. Additionally, there is an ongoing need to replace existing infrastructure to continue to reliably serve existing loads. Although AMI will provide benefits to customers, it is not an investment that is necessary in order for IPC to fulfill its obligation to meet new and existing service requirements. Therefore, in order to support the large capital expenditures needed to meet new and ongoing service obligations as well as to implement AMI, IPC has identified three regulatory needs between when AMI implementation begins and when AMI deployment is complete. These three regulatory needs are:

1. Three-year depreciation of the meters and metering equipment that AMI will replace.
2. Recovery of new metering equipment as it is placed in service and capture of O&M benefits as they begin to occur.
3. Establishment of appropriate depreciation rates for AMI equipment.

As part of its AMI implementation plan, IPC will bring before the Commission requests to address each of these regulatory needs.

A. Accelerated Depreciation of Existing Meters

An integral component of IPC's financial analysis is the assumption that IPC will begin collecting in rates the accelerated depreciation of the meters and metering equipment that AMI will replace at the time that AMI deployment commences on January 1, 2009. Specifically, IPC wishes to have the old metering equipment fully depreciated coincident with the completion of the three-year AMI deployment. This regulatory action is deemed essential to IPC's commitment to moving forward with AMI implementation.

B. Recovery of New Metering Equipment

The revenue requirement associated with the installation of AMI includes the return on and of the investment in metering equipment less the net O&M savings as they occur through the process changes enabled by the new technology. An adjustment to rates on January 1, 2009, to include the revenue requirement associated with AMI implementation will support IPC's financing requirements as it continues to fund significant investments in system infrastructure. This adjustment may take the form of specific inclusion in a general rate case test year or a separate rate mechanism specifically targeted to the AMI implementation.

C. Depreciation Rates for AMI Equipment

AMI meters and associated equipment have shorter useful lives than the standard metering equipment now being utilized by IPC. In order to appropriately recognize these shorter lives, IPC will include in its next depreciation filing before the Commission recommended depreciation rates for the various components of AMI equipment.

5. Issues to Resolve

A. CIS Assessment—Time-Variant Pricing

Implementation of AMI will provide the technology necessary to capture customers' energy usage on an hourly basis, creating the foundation for a variety of time-variant pricing options. Although IPC currently offers two time-variant pricing options to customers where AMI is installed, constraints within the Customer Information System (CIS), which require manual intervention in the rate change process, limit IPC's ability to offer time-variant pricing on a large-scale basis. Additional time and investment is required before IPC can offer time-variant pricing on a large-scale basis.

B. Meter Data Management System (MDMS)

The MDMS system currently has the functionality required to support the AMI system and time variant rates. As the AMI system expands beyond the current 25,000 endpoints, additional work related to scalability and usability will be required.

6. Conclusions

IPC has analyzed the costs and benefits of implementing AMI in the remaining portions of the service territory. Based on the results of the financial analysis, IPC believes implementation of AMI will provide customers with long-term benefits. In addition, AMI will create the foundation for the ability to offer customers pricing options and additional information about their energy consumption, which may lead to additional future benefits. For these reasons, IPC believes it is reasonable to pursue full implementation of AMI staged over a three-year period.

To recover the costs of implementation, it is essential that IPC 1) begin to collect accelerated depreciation of the meters and metering equipment that AMI will replace, 2) recover the costs of new metering equipment as it is deployed and capture O&M benefits as they begin to occur through the process changes enabled and necessitated by AMI, and 3) establish the appropriate depreciation rates for AMI equipment.

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IDAHO PUBLIC
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August 31, 2007

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
472 West Washington Street
PO Box 83720
Boise, Idaho 83720-0074

Re: Supplement to Phase I AMI Implementation Status Report
Case No. IPC-E-06-01

Dear Ms. Jewell:

Enclosed please find eight copies of Idaho Power's Advanced Metering Infrastructure (AMI) Implementation Plan. This report is a supplement to the Advanced Metering Infrastructure (AMI) Status Report filed on May 1, 2007, and is filed in compliance with Idaho Public Utilities Commission Order No. 30102.

If you have any questions regarding this report, please do not hesitate to contact me.

Sincerely

Maggie Brilz
Director, Pricing

MB

c: Ric Gale
P&RS/Legal files

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