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DONOVAN E. WALKER
Corporate Counsel

December 12, 2008

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-08-16
Advanced Metering Infrastructure ("AMI") Technology

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

I would appreciate it if you would return a stamped copy of this letter for Idaho Power's file in the enclosed stamped, self-addressed envelope.

Very truly yours,

Don E. Walker

Donovan E. Walker

DEW:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMES NOW, Idaho Power Company ("Idaho Power" or "Company") and submits the following Comments in response to the Comments filed by the Commission Staff on December 8, 2008.

I. INTRODUCTION

Commission Staff recommends that the Commission grant the Certificate of Public Convenience and Necessity to continue with the Company's AMI deployment over three years, and also recommends that the Company be allowed to ratebase the prudent capital costs of the deployment up to the commitment estimate. The Company is appreciative of Staff's recommendation. However, Staff has also recommended an accelerated depreciation of the existing metering equipment over a period of five years as opposed to the Company's request of a three-year period, which causes the Company concern. These Reply Comments will address Staff's proposal to accelerate depreciation over a five-year period.

II. ACCELERATED DEPRECIATION OF EXISTING METERING EQUIPMENT

Throughout the course of the Company's evaluation of AMI technology in its service territory, Idaho Power has repeatedly stated that in order to proceed with the implementation of an AMI system, a critical regulatory need is the acceleration of depreciation of the existing metering equipment over a three year period of time. In the *Advanced Metering Infrastructure (AMI) Implementation Plan* filed with the Idaho Public Utilities Commission on August 31, 2007, the Company stated:

> . . . 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.

Further, in order to support the large capital expenditures needed to meet new and ongoing service obligations as well as to implement AMI, a three-year depreciation of the existing metering equipment that AMI will replace is necessary.

A three-year recovery of accelerated depreciation provides adequate cash flow to improve cash flow coverage ratios to levels that are necessary to maintain Idaho Power's credit strength and its ability to access external markets for funding capital projects, thus allowing the Company the greatest opportunity to fund the new AMI equipment with reduced reliance on borrowing. Staff's recommendation of a five-year acceleration of depreciation would result in an annual reduction to cash flows of approximately $3.7 million during a time when the Company will be investing over $20 million a year in AMI technology during its deployment. Given the extensive demands on Company capital and the current state of the financial markets, the additional negative cash flow created by the five-year depreciation would make it extremely difficult to maintain the current deployment plan.

Staff has expressed that their concern with the three-year acceleration of depreciation is the rate impact on customers. The undepreciated balance of existing metering equipment is approximately $27 million. With a three-year acceleration of depreciation, the annual revenue requirement would amount to an increase of $9.2 million. However, Staff has incorrectly estimated the Company's revenue requirement for the three-year deployment as an increase of $11.8 million the first year, $10.5 million the second year, and $9.2 million the final year. As explained in Witness Waites' direct testimony, in an attempt to mitigate the impact of the increased revenue requirement, the Company believes it is reasonable to also calculate the Operation and Maintenance ("O&M") benefits expected from the deployment of AMI as an offset to the increase to revenue requirement resulting from the accelerated deprecation of the existing metering equipment. Exhibit No. 6 of the Company's Application details this calculation. The estimated additional 2009 revenue requirement is $8.4 million or a 1.27 percent increase in customers' rates. In Exhibit No. 4, the revenue requirement impact for 2010 and 2011 can also be seen; the $9.2 million in accelerated depreciation each year would be offset by $3.2 million and $5.6 million in O&M benefits in 2010 and 2011, respectively.

As previously described, a five-year acceleration of depreciation would negatively impact the Company's cash flow by approximately $3.7 million annually. While this reduction would have adverse impacts on the Company, the impact to customers is minimal. The Company's request estimates the increased revenue requirement in 2009 would result in a 1.27 percent increase in customers' rates. However, if a five-year acceleration of depreciation is adopted, the estimated increase is 0.46 percent. Based on an average monthly residential bill of $70, the difference between the Company's and the Staff's proposal to residential customers is only about 57¢ a month.

The Company has emphasized the importance of having adequate and timely cash flow for funding capital projects. If the Commission determines that the existing meters should be depreciated over a different length of time than what the Company has proposed (three years), then the Company respectfully requests that the amortization of the accelerated depreciation be ***synchronized*** with the deployment period. This synchronization will help reduce the impact to the cash flow coverage ratios needed in order to help maintain the Company's financial health. Operationally, the Company believes that a synchronized four-year or five-year plan is manageable, but not optimal when compared to the proposed three-year deployment and may increase the total cost of the project as well as the Company's Commitment Estimate.

III. DYNAMIC PRICING

As Mr. Gale mentioned in his testimony and Staff acknowledged in their Comments, the Company will be required to make additional investments before wide scale applications of pricing programs and information can become a reality. Staff has recommended that the Company offer its Time of Day and Energy Watch program to customers as AMI is implemented in each region of its service territory. The Company must reiterate that there are some additional back office systems that will need to be in place before the broader implementation of these programs can occur.

IV. CONCLUSION

A three-year acceleration of depreciation of the existing metering equipment is an integral component of the Company's financial analysis which led to the decision to implement AMI technology in our service area. AMI will provide benefits to customers. However, it is not an investment that is technically necessary for the Company to meet its obligation to serve at this time, as a functioning metering system currently exists. A change in the timing of the accelerated depreciation would have significant impacts on the Company's cash flow and may require a reevaluation of the deployment by the Company. Given the extensive demands on Company capital and the current state of the financial markets, the additional negative cash flow created by the five-year depreciation would make it extremely difficult to maintain the current deployment plan.

The Company respectfully requests that the Commission issue an Order: (1) granting the Company a Certificate of Public Convenience and Necessity to install AMI technology throughout its service territory, (2) authorizing that, in the ordinary course of events, Idaho Power can expect to ratebase the prudent capital costs of deploying AMI as it is placed in service, (3) authorizing the accelerated depreciation of the existing metering infrastructure replaced by AMI over the three-year deployment and beginning the amortization the same month as rates are implemented for the recovery of AMI costs, (4) and including the operation and maintenance benefits in the accounting methodology.

Respectfully submitted this 12th day of December 2008.

DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 12th day of December 2008 I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff Neil Price, Esq. Deputy Attorney General Idaho Public Utilities Commission 472 West Washington P.O. Box 83720 Boise, Idaho 83720-0074	_X_ Hand Delivered ___ U.S. Mail ___ Overnight Mail ___ FAX _X_ Email neil.price@puc.idaho.gov
Kroger Co. Michael L. Kurtz Kurt J. Boehm BOEHM, KURTZ & LOWRY 36 East Seventh Street, Suite 1510 Cincinnati, Ohio 45202	___ Hand Delivered _X_ U.S. Mail ___ Overnight Mail ___ FAX _X_ Email mkurtz@BKLlawfirm.com kboehm@BKLlawfirm.com
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Donovan E. Walker