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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 AUTHORITY TO
MODIFY ITS RULE H LINE EXTENSION
TARIFF RELATED TO NEW SERVICE
ATTACHMENTS AND DISTRIBUTION
LINE INSTALLATIONS.**

CASE NO. IPC-E-08-22

BUILDING CONTRACTORS ASSOCIATION OF SOUTHWESTERN IDAHO

TESTIMONY ON RECONSIDERATION

OF

DR. RICHARD SLAUGHTER

1 Q. Please state your name and business address for the record.

2 A. My name is Richard Slaughter. My business address is 907 Harrison Blvd, Boise,
3 Idaho 83702.

4 Q. Are you the same Richard Slaughter who has testified previously in this case?

5 A. I am.

6 Q. What is the purpose of your testimony?

7 A. In Interlocutory Order No. 30883 the Commission granted the Building
8 Contractors' request for reconsideration "on the limited issue of the amount of
9 appropriate allowances." Order 30883 at 4. The Commission stated that
10 "Allowances are intended to reflect an appropriate amount of contribution
11 provided by new customers requesting services in an effort to relieve one area of
12 upward pressure on rates. BCA may address what allowance amount is reasonable
13 based on the cost of new distribution facilities." My testimony addresses the
14 allowance issue in that context and within the framework of the existing
15 Commission standard enunciated in Order 26780 in 1995 concerning an
16 appropriate amount of Company investment in distribution facilities (and the
17 concurrent amount of contribution provided by new customers).

1 Q. What is your understanding of the Order 26780 standard regarding distribution
2 cost recovery as it applies to the contribution provided by new Company
3 customers?

4 A. In Order 26780 (1995) the Commission concluded that new customers are entitled
5 to the same company investment in distribution enjoyed by existing customers in
6 the same class, and costs required to extend service to new customers in excess of
7 the embedded cost of distribution are to be recovered from the developer or new
8 customer:

9 We find that new customers are entitled to have the Company provide a
10 level of investment equal to that made to serve existing customers in the
11 same class. Recovery of those costs in excess of embedded costs must
12 also be provided for and the impact on the rates of existing customers is an
13 important part of our consideration. [Order 26780 at 17].

14 Q. What is the significance of focusing on the Company's embedded costs for
15 distribution when establishing an appropriate allowance for extending service to
16 new customers?

17 A. The Company's per customer embedded cost for distribution is equal to the
18 Company's investment in existing distribution plant less depreciation. Embedded
19 cost represents the Company's current "level of investment made to serve existing
20 customers," and depending on how much additional distribution plant has been
21 added since the Company's last rate case, embedded cost approximates the
22 Company's per customer level of investment in distribution plant that it can
23 recover through existing rates. To the extent that the Commission desires to

1 relieve upward pressure on rates, then limiting the Company's investment in
2 distribution to serve new customers to its current per customer embedded costs for
3 distribution facilities providing the same service to existing customers
4 accomplishes this.

5 Q. Is there a reasonable estimate of what the Company's per customer embedded
6 cost for distribution facilities is?

7 A. Both I, in my earlier pre-filed testimony, and Staff in its Comments, have
8 calculated the Company's embedded distribution costs. In the residential
9 customer class, Staff calculated this to be \$1,232 per residential customer. That
10 calculation has not been challenged by any party to this case. For purposes of my
11 testimony I have accepted Staff's estimate of the Company's per customer
12 embedded cost.

13 Q. How, then, does all of this relate to "what allowance amount is reasonable based
14 on the cost of new distribution facilities?"

15 A. If the Commission's standard for Company investment in distribution continues to
16 be an amount "equal to that made to serve existing customers in the same class,"
17 and the Company is entitled to recover from the new customer the costs of new
18 distribution facilities in excess of embedded costs, then the appropriate Company
19 per customer allowance for new distribution should be an amount equal to the

1 Company's per customer embedded costs to serve existing customers, or \$1,232
2 per new customer.

3 Q. Are you aware that the Company's new tariff treats an "allowance" as an amount
4 equal to the Company's contribution toward the cost of terminal facilities, which
5 the Company, Staff and the Commission each have determined should be \$1,780
6 per transformer as a "maximum allowance" for residential and non-residential
7 single phase service?

8 A. Yes.

9 Q. The \$1,780 allowance approved in Order 30853 is over \$600 more than the
10 \$1,001 embedded cost per customer that you calculated in your Direct Testimony,
11 and over \$500 more than the \$1,232 embedded cost per customer that Staff
12 calculated from the cost of service studies used in the Company's most recent rate
13 case. Hasn't the Commission actually *increased* the allowance it now would
14 permit for these new residential class customers?

15 A. I state emphatically that it has not. The \$1,001 to \$1,232 embedded cost amounts
16 I have testified to above are per customer embedded costs. The \$1,780 terminal
17 facilities allowance for new service bears no relationship whatsoever to the
18 Company's current per customer investment to serve existing customers in the
19 same class. A \$1,780 allowance could be appropriate and reasonable if it did, but
20 it simply does not.

1 Q. Please explain.

2 A. As the Building Contractors have emphasized in their comments, and I have in
3 my testimony, in a residential subdivision terminal facilities can and do serve up
4 to ten customers per installation. Consequently, a single allowance, in whatever
5 amount, that is based solely on the cost of terminal facilities must be apportioned
6 among the total number of new customers who share those terminal facilities. By
7 authorizing only a per transformer allowance of \$1,780, the Company investment
8 per new customer can drop to as low as \$149 per customer, or nearly \$1100 less
9 than the Company's current distribution investment for each of its existing
10 customers.

11 Q. What does this mean in terms of the Company's ability to recover its investment
12 through existing rates?

13 A. For the 60 lot subdivision example in Exhibit 204 of my Direct Testimony, this
14 results in the Company recovering through rates up to \$1,084 more per new
15 customer than it invested in the distribution facilities serving that customer.

16 Q. So what does that mean for this proceeding?

17 A. In the context of residential customers, in all but the smallest subdivisions, the
18 allowance approved by the Commission in Order 30833 allows the Company to
19 receive a contribution for distribution facilities from each new customer that

1 exceeds embedded costs. In a large subdivision the new customer contribution
2 exceeds the Company's embedded cost by approximately \$1,050 per customer.

3 Q. How does this compare with the Company's investment versus its recovery
4 through rates using the current allowances in the Order 26780 tariff?

5 A. Again using the residential customer class, the Company's current tariff approved
6 by Order 26780 provides a total per customer allowance that is made up of two
7 components: 1) an up-front allowance for terminal facilities; and 2) a per-
8 lot/customer refund allowance as new customers come on line.

9 Interestingly, as illustrated in Exhibit 202 to my Direct Testimony, which is
10 appended to this testimony as Exhibit 205, the total of these two allowances on a
11 per customer basis under the Order 26780 Rule H tariff are quite close to the
12 approximate \$1,100 to \$1,200 current per customer embedded cost of distribution.
13 Under the tariff approved in Order 30853, however, even after accounting for a
14 \$1,780 terminal facilities allowance, the Company's net per customer investment
15 actually becomes negative.

16 Q. Please elaborate.

17 A. Table 1 below shows how developments of different sizes compare with regard to
18 the Company's capital investment for Rule H costs, including 1.5% overhead.

19 The examples are from Staff Comments, Attachment 9, page 2 of 4.

1

Table 1

Order 30853 Rule H Rate Structure					
Subdivision example	1	2	3	4	5
Design Number	61114	67186	60197	24482	27729
No. of Lots	3	10	32	60	101
No. of transformers	2	1	4	5	10
Average embedded cost per customer (Staff comments at 5)	<u>\$ 1,232</u>				
Total Design Cost	\$10,572	\$15,116	\$50,432	\$72,528	\$144,771
Recovery through existing rates	\$3,697	\$12,324	\$39,438	\$73,946	\$124,476
Order 30853 developer payment after allowance	\$7,012	\$13,336	\$43,312	\$63,628	\$126,971
Net Company investment per customer	(\$46)	(\$1,054)	(\$1,010)	(\$1,084)	(\$1,056)

Source: Staff Attachment 9, Page 2 of 4; Staff comments at 5.

Company investment per customer is total design cost per lot less developer payment less rate recovery
2

3 Q. Please describe the table.

4 A. The table shows the number of lots and the number of transformers in each
5 development. It also shows the total design/work order cost, the amount
6 recovered through existing rates, and the amount that Order 30853 would require
7 be paid in up front capital by the developer. Finally, it shows the net Company
8 investment per customer in each case.

9 In example 5 of Table 1, total design cost is \$144,771 of which the Company is
10 entitled to recover \$124,476 from the new ratepayers through the existing rate

1 structure, leaving a shortfall of \$20,395, presumably to be collected from the
2 developer. Order 30853, however, entitles the Company to collect almost
3 \$127,000 from the developer, for a total recovery of \$251,447, having expended
4 only \$144,771.

5 Q. How can the Company's net investment be negative if the purpose of Order
6 30853 is to "relieve upward pressure on rates," and if, as the Commission has
7 observed in Order 30853 (see Testimony at page 11 below), "fees cannot be
8 charged for new plant that cannot be attributed specifically to serving new
9 customers?"

10 A. The conflict between the Order 26780 standards and the outcome of the new Rule
11 H design approved in Order 30853 cannot be reconciled. As Table 1 clearly
12 shows, the new Rule H design does far more than affect "upward pressure on
13 rates" from new distribution, it actually provides a profit on each installation
14 supplemental to the Company's authorized rate of return on the investment.

15 Q. What is the case under Rule H from Order 26780?

16 A. From Staff Attachment 9, page 2 of 4, it is clear that under "Current Rule H"
17 approved by Order 26780, the developer's "Net Cost" plus the \$800 per lot refund
18 almost exactly equal the "Work Order Cost per lot," which in turn are almost
19 exactly equal to the average embedded cost of \$1,232 computed by Staff.
20 Whether as a result of simple coincidence or of thoughtful consideration, under

1 the existing Rule H tariff approved in Order 26780, current Company per
2 customer investment in new distribution closely approximates its current
3 embedded cost. It therefore is hard to see how, given today's costs for new
4 distribution facilities, the authorized allowances under the Rule H tariff approved
5 in Order 26780 produce "upward pressure on rates," let alone why any significant
6 change in the tariff is warranted.

7 Q. So what rationale does exist for changing the tariff and reducing the Company's
8 distribution investment if the sum of its current per customer allowance in the
9 form of terminal facilities allowances and per lot refunds actually approximates
10 its embedded cost for distribution?

11 A. None that I am aware of.

12 Q Do you have an opinion as to what the economic result to the Company would be
13 if only a \$1,780 terminal facilities allowance is approved and there is no other
14 allowance provided for new distribution?

15 A. In the residential subdivision examples I have been discussing, the Company will
16 be in an excess earning situation with regard to its distribution plant. The
17 difficulty in accounting for this excess earning after the fact and providing
18 necessary refunds or credits to the appropriate new customers will be significant.

19 Q. Absent such an after-the-fact accounting, what happens to this "excess earnings?"

1 A. Absent a timely true up that ultimately distributes these excess revenues back to
2 the new customers who paid them, the practical effect quite likely will be that the
3 amount earned on new distribution plant in excess of embedded costs will be
4 applied to help pay the Company's other costs, including non-recoverable costs,
5 generation and/or transmission costs—new customers will be paying an unequal
6 proportion of these costs when compared with existing customers.

7 Q. Is that result consistent with prior Commission decisions?

8 A. No. It would not be consistent with Order 30853 or the two Idaho Supreme Court
9 decisions on this subject referenced in that Order, which preclude
10 disproportionately recovering the costs of new generation and transmission plant
11 from new customers:

12 Allowances. The capital cost of installing new generation and transmission
13 plant has always generally been recovered through rates paid by all
14 customers. Indeed, fees cannot be charged for new plant that cannot be
15 attributed specifically to serving new customers. (Idaho State
16 Homebuilders v. Washington Water Power, 107 Idaho 415,690 P.2d 350
17 (1984); Building Contractors Association v. PUC and Boise Water Corp.,
18 128 Idaho 534, 916 P.2d 1259 (1996).) [Order 30853, at 9-10] Emphasis
19 added.

20 Q. Aside from the issues you have just described, is the rate structure in Order 30853
21 an economically efficient result as it applies to residential extensions?

22 A. No. An economically efficient result would align costs with recovery from
23 developers, so that the highest developer contributions would come from
24 developments that present the highest per customer cost. In the Table 1 example,

1 the subdivision with three lots, which has two transformers for three customers,
2 receives the highest allowance, over \$1,000 higher per lot (customer) than the
3 larger subdivisions with ten customers per transformer. In other words, the rule
4 approved in Order 30853 encourages high cost development. This cannot be
5 desirable.

6 Q. Based on the foregoing testimony, do you have an opinion concerning how to
7 calculate a reasonable and appropriate allowance for line extensions to serve new
8 customers?

9 A. However the allowance is configured, to meet the Commission's stated standard
10 an appropriate per new customer allowance must be approximately equal to the
11 Company's per existing customer embedded costs, calculated in this case by Staff
12 at \$1232.44.

13 Q. Do you have a proposed rate structure for residential subdivisions that satisfies
14 this standard?

15 A. Yes. Much of the regulatory difficulty with Rule H, insofar as residential
16 customers are concerned, stems from attempting to match allowances and refunds
17 with defined "standard service," accounting for transformers, underground vs.
18 overhead, service drops, the size of the pole offset, etc. It would be much simpler
19 for all to understand and administer, if the tariff simply were to charge a
20 subdivision developer the full work order cost for the installation, and then credit

1 that charge with the capital value embedded in rate base. In other words, the
2 appropriate allowance would achieve a Company investment for any new service
3 extension request equal to its per customer embedded cost multiplied by the total
4 number of new customers to be served. The developer or new customer
5 contribution towards the new distribution facilities then would be equal to total
6 design cost minus the Company's per customer embedded cost allowance (i.e.,
7 those facilities costs in excess of the amount the Company will receive as a return
8 from the new customer through rates).

9 Q. Are there side effects to such a structure?

10 A. Yes. This structure would cause embedded rate base to decline slowly over time,
11 unless the allowance is somehow adjusted for inflation. While such an outcome
12 may be desirable from the Company's standpoint or from a political standpoint, it
13 would over time cause rates to be less truly reflective of energy costs than they
14 are now. To the extent that allowances fall further behind costs, the Rule would
15 shift generation and transmission cost to the new customer. To avoid this
16 outcome, the embedded cost allowance should be indexed to the lesser of a
17 general energy or construction cost index or the increase in installation work order
18 costs. Either approach will work and either cost method can easily be updated
19 annually by the Company and Staff.

20 Q. Can you illustrate your proposal?

1 A. Yes. Table 2 shows the effect of a simplified Rule H rate structure, wherein the
 2 developer pays up front the entire work order or Total Design cost, less the
 3 amount expected to be recovered from the new customers through existing rate
 4 base. This latter amount can be calculated by Commission staff each year, in
 5 conjunction with a filing by the Company of current work order costs. Developer
 6 payments would always be \$0 or greater. In the examples in the table,
 7 subdivision #4 is from 2002, so the costs shown may be understated in today's
 8 dollars.

9 Table 2

Simplified Rule H Rate Structure

Subdivision example	1	2	3	4	5
Design Number	61114	67186	60197	24482	27729
No. of Lots	3	10	32	60	101
Average embedded cost per customer (Staff comments at 5)	<u>\$ 1,232</u>				
Total Design Cost	\$10,572	\$15,116	\$50,432	\$72,528	\$144,771
Recovery through existing rates	\$3,697	\$12,324	\$39,438	\$73,946	\$124,476
Developer payment (>= \$0)	\$6,875	\$2,792	\$10,994	\$0	\$20,295
Developer payment per lot	\$2,292	\$279	\$344	\$0	\$201
Net Company investment per customer	\$0	\$0	\$0	(\$24)	\$0

10

11 Q. Does this structure have advantages?

12 A. Subject to the qualifications above, it achieves several objectives: 1) it does not
 13 contribute additional cost to rate base, which achieves the Company's and

1 Commission's stated objectives. Residential growth serves only to maintain rates
2 at their current levels insofar as Rule H costs are concerned; 2) it satisfies the
3 Supreme Court standard in *Water Power and Boise Water* by avoiding the need
4 for continual after-the-fact accounting for excess earnings on distribution plant
5 and/or the potential shift of generation and transmission costs to new customers
6 through the line extension tariff; 3) it greatly simplifies the presentation and
7 calculation of Rule H costs for residential development; and 4) it is economically
8 efficient, because it recovers the highest development payment from the highest
9 cost installations.

10 Q. Does this conclude your testimony?

11 A. Yes.

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IDAHO PUBLIC UTILITIES COMMISSION
CASE NO. IPC-3-08-22
BUILDING CONTRACTORS ASSOCIATION OF
SOUTHWEST IDAHO
EXHIBIT 205

Exhibit 205: Comparison of Existing and Proposed Rule H Cost Distribution

		Existing Rule H					Proposed Rule H				
No. of Lots	Project Cost	Terminal Facilities Allowance	Maximum Refund	Total Customer	Total Company	Terminal Facilities Allowance	Maximum Refund	Total Customer	Total Company	Total	
3	\$10,897	\$3,493	\$2,400	\$5,004	\$5,893	\$3,560	\$0	\$7,337	\$3,560	\$3,560	
10	\$19,929	\$3,397	\$8,000	\$8,532	\$11,397	\$1,780	\$0	\$18,149	\$1,780	\$1,780	
32	\$50,432	\$11,496	\$25,600	\$13,336	\$37,096	\$7,120	\$0	\$43,312	\$7,120	\$7,120	

Source: Idaho Power Company's Response to BCA production request, Page 5

CERTIFICATE OF SERVICE

I hereby certify that on the 11th day of September, 2009, a true and correct copy of the foregoing was served upon the following individual(s) by the means indicated:

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

U.S. Mail, postage prepaid
Express Mail
Hand Delivery
Facsimile
Electronic Mail

Service Copies:

Lisa D. Nordstrom
Barton L. Kline
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
lnordstrom@idahopower.com
bkline@idahopower.com
cc: cbearry@idahopower.com

U.S. Mail, postage prepaid
Express Mail
Hand Delivery
Facsimile
Electronic Mail

Scott Sparks
Gregory W. Said
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
ssparks@idahopower.com
gsaid@idahopower.com

U.S. Mail, postage prepaid
Express Mail
Hand Delivery
Facsimile
Electronic Mail

Kristine A. Sasser
Deputy Attorney General
Idaho Public Utilities Commission
472 W. Washington
PO Box 83720
Boise, ID 83720-0074
kris.sasser@puc.idaho.gov

U.S. Mail, postage prepaid
Express Mail
Hand Delivery
Facsimile
Electronic Mail

Matthew A. Johnson
Davis F. VanderVelde
White, Peterson, Gigray, Rossman, Nye &
Nichols, P.A.
5700 E. Franklin Rd., Ste. 200
Nampa, ID 83687
mjohnson@whitepeterson.com
dvandervelde@whitepeterson.com
*Attorneys for The City of Nampa and The
Association of Canyon County Highway
Districts*

U.S. Mail, postage prepaid
 Express Mail
 Hand Delivery
 Facsimile
 Electronic Mail

Michael Kurtz
Kurt J. Boehm
Boehm, Kurtz & Lowry
36 E. Seventh St., Ste. 1510
Cincinnati, OH 45202
mkurtz@BKLLawfirm.com
kboehm@BKLLawfirm.com
Attorneys for The Kroeger Co.

U.S. Mail, postage prepaid
 Express Mail
 Hand Delivery
 Facsimile
 Electronic Mail

Kevin Higgins
Energy Strategies, LLC
Parkside Towers
215 S. State St., Ste. 200
Salt Lake City, UT 84111
khiggins@energystrat.com
Representing The Kroeger Co.

U.S. Mail, postage prepaid
 Express Mail
 Hand Delivery
 Facsimile
 Electronic Mail



Michael C. Creamer