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May 1, 2009

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IDAHO PUBLIC
UTILITIES COMMISSION

Via Hand Delivery

Jean Jewell
Idaho Public Utilities Commission
472 W. Washington
P.O. Box 83720
Boise, ID 83720-0074

Re: 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

Our File: 10495-1

Dear Jean:

Enclosed for filing please find an original and seven (7) copies of The Building Contractors Association of Southwestern Idaho's Response to Comments filed by the Commission Staff in the above entitled matter.

Thank you for your assistance in this matter.

Sincerely,

Tina M. Adornetto
Document Specialist

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cc: Service List (w/enclosures)
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10495-1/555219_1

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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'S RESPONSE TO COMMENTS**

The Building Contractors Association of Southwestern Idaho ("Building Contractors"), by and through its attorneys of record, Givens Pursley LLP, submits this Response to comments filed by the Commission Staff in the above-captioned matter.

INTRODUCTION

In this Response, Building Contractors take issue with the inconsistency of the Staff's analysis and recommendations when compared to its purported position (and current Commission policy) that Idaho Power Company ("Company" or "Idaho Power") should have an investment in distribution facilities at least equal to the average embedded cost per customer for such facilities. Staff Comments support Idaho Power's proposed line extension tariff modifications, which actually result in the Company's investment per new residential customer being reduced to as low as $176.00, over $1,000.0 *less* than Staff's estimate of current per customer embedded cost.

The Staff Comments also provide no rationale for the position that new customers, who provide a future revenue stream on which the Company and its shareholders may earn an assured rate of return, should now bear 100% of the investment risk for new distribution facilities. Staff's proposal to convert what have been allowances under historical Rule H tariffs, to refunds, would require developers to carry essentially the entire line extension cost with only an expectation that they may receive a vested interest refund in the future, and then only if additional customers come on line within a relatively short five-year window.

Staff essentially concurs with Dr. Slaughter's testimony that the increased costs of distribution facilities are attributable to inflation, but it supports a line extension tariff that disproportionately allocates the additional cost of facilities to new customers simply because they are new customers. When combined with the fact that the proposed tariff modifications result in the Company paying as much as $1,056.00 less than the current per-customer embedded cost for distribution facilities, the modifications are inherently discriminatory and inconsistent with longstanding Commission policy.

DISCUSSION

1. **Staff's Policy Statement Compared to Staff's Calculations**.

Although Staff appears to support the policy stated in Order 26780 (IPC-E-95-18) that new customers are entitled to have the Company provide a level of investment equal to that made to serve existing customers in the same class, examination of Staff's comments reveals significant discrepancies between that policy and Staff's resulting calculations found on Attachment 9, page 2 of 4. On pages 3 and 5, Staff indicates that Company investment should at least equal average embedded cost per customer:

> Staff believes that the goal in setting allowance and refund amounts for distribution line extensions should be to eliminate the impact on existing electric rates. More specifically, Staff believes the line extension rules should provide a new customer allowance (Company investment) that can be supported by electric rates paid by that customer over time. . . .

Staff calculates a "revenue neutral investment of $1,232.44 which Idaho Power can make to provide service to new residential customers." Dr. Slaughter's calculation of the embedded cost in this regard was similar and, for purposes of this Response, Building Contractors accept Staff's $1,232.44 figure as a reasonable approximation. Staff then states that "[b]ecause the average investment of existing customers ($1,232) is fairly close to Staff's estimate of the cost of overhead terminal facilities ($1,444), Staff believes terminal facilities should be provided at no cost to the residential customer." Staff Comments at 5.

The proposed changes to Rule H are complex; Building Contractors believes that Staff has inadvertently calculated the cost of terminal facilities assuming one transformer, a 100-foot line drop and a meter *as a per lot allowance*, and incorrectly concluded that the proposed Rule H tariff modifications will result in an appropriate Company investment.

According to Scott Sparks, the Company defines "Terminal Services" as one 25 KVa transformer and one service drop, up to 100-feet in length. Meters are not included in the calculation because meters are free to all customers. Moreover, a line extension often involves more than one transformer, and more than one customer may be connected to a single transformer. If two or more customers (lots) are connected to a single transformer, the service drop is provided for one within the proposed allowance; others are charged to the developer.

The table below prepared by Dr. Slaughter compares cost distribution under the existing Rule H tariff, the Company's proposal, and the Staff proposal using subdivision examples presented by Staff, as provided by the Company. This table incorporates Staff's calculated existing embedded cost of $1,232.44 per customer and Staff's proposal to treat work order cost as being equal to Total Design Cost.[1]

Comparison of Investment Under Existing Rule H, and Company and Staff Proposals					
Subdivision example	1	2	3	4	5
No. of Lots	3	10	32	60	101
Average embedded cost (Staff)	**$1,232.44**	**$1,232.44**	**$1,232.44**	**$1,232.44**	**$1,232.44**
Total Design Cost	$10,572	$15,116	$50,432	$72,528	$144,771
Design (work order) cost per lot	$3,524	$1,512	$1,576	$1,209	$1,433
Allowance (Company)/ Eligible for Refund (Staff)	$3,560	$1,780	$7,120	$8,900	$17,800
Developer costs per lot (including extra service drops):					
Staff	$2,337	$1,334	$1,354	$1,060	$1,257
Company	$2,337	$1,334	$1,354	$1,060	$1,257
Existing Rule H	$1,565	$233	$417	$148	$383
Company investment per lot:					
Staff	$1,187	$178	$222	$149	$176
Company	$1,187	$178	$222	$149	$176
Existing Rule H	$1,959	$1,279	$1,159	$1,061	$1,050
Difference between Staff investment goal and actual Company investment per Staff Attachment 9 P. 2	**$45.44**	**$1,054.84**	**$1,010.44**	**$1,083.64**	**$1,056.06**
Difference between Staff estimated embedded cost and current Company line extension investment	**$(726.56)**	**$(46.16)**	**$73.44**	**$171.64**	**$182.06**

The above table highlights that under the Company's proposal, as supported by Staff, the Company's investment in distribution facilities to serve new residential customers falls far short of its investment to serve existing residential customers for all but the smallest developments. For subdivisions larger than three lots, the Company's investment would be less than $200 per lot. These calculations also show that *even under the current Rule H tariff*, Company investment

[1] The Company shows Work Order Cost as being the Total Design Cost less Allowance. The Staff proposal is that the allowance be made an after-the-fact refund.

is less than the embedded cost for developments larger than ten lots. The proposed tariff modifications only make this situation worse.

Further, if the terminal facilities allowance is to be $1,780, then for a 32-lot subdivision, terminal facilities constitute approximately $222 per lot. Deducting $222 from a $1,232 embedded cost should yield a per-lot refund of $1,010. This analysis ties closely with Dr. Slaughter's estimated $1,164 per lot, based on the 1995 refund of $800 and accounting for inflation since that time. Based on the foregoing, and the Company's proposed terminal facilities allowance of $1,780 per transformer and one service drop, the per-lot refund should be $1,000 and indexed to the GDP Implicit Price Deflator between major rate cases. Under the Company's and Staff's proposal, the per-lot refund would be only $222.

2. <u>Shift of Terminal Facilities Risk to Developer</u>.

Staff's (and ostensibly the Company's) position appears motivated by the goal of protecting current ratepayers from higher nominal rates. They would do so by requiring a new customer to pay the entire cost of new distribution facilities and its proportionate share of the cost of existing facilities. This strategy shifts all of the investment risk, including inflationary costs and vagaries of the economy to the new customer/developer of a subdivision.

Going a step further than even the Company's requested modifications, Staff proposes that the existing terminal facilities allowance become a refundable expense, after calculation of Work Order Cost, rather than an allowance deducted from Total Design Cost. It is not clear why Staff made this proposal, other than to suggest that terminal facilities would be an appropriate basis for refunds—a suggestion that Building Contractors disagrees with. Building Contractors oppose this proposed shift, as the preponderance of line extension cost risks already are borne by the developer and/or new customer.

3. <u>The Effects of Inflation on Costs</u>.

Staff agrees with Idaho Power that rising costs are a function of inflation and growth. At the same time, however, Staff's analysis presented in its Attachment 1A is in line with Dr. Slaughter's analysis, showing that if inflation is zero, *the total revenue requirement rises as customers are added, but the revenue requirement per customer does not*. In fact, the revenue requirement per customer actually declines over time. Only in the inflation example does the revenue requirement rise. *Thus, rising costs are entirely a function of inflation, which existing customers should not be shielded from any more than new customers.* Rapid growth does in fact cause these higher costs to enter rate base faster than they would otherwise, but that is *not* the same as "growth not paying its way."

The tendency of both the Company and Staff to equate rising costs with growth ignores both the effect of inflation and the rising consumption of energy by the installed customer base. The average customer consumes far more energy today than he or she did several decades ago, even if that customer has *never* been a "new" customer on the Idaho Power system. Further, as Dr. Slaughter explained, new distribution facilities to serve growth reduce the average age of the distribution system and increase its capabilities. They therefore enhance the system, reduce average maintenance costs, and do *not* contribute to rising real costs.

4. <u>Commission Policy</u>.

It bears repeating that in its order in IPC-E-2008-10 the Commission made clear its belief that energy prices should reflect market costs, and that to discourage excess demand, the customer should not be artificially protected from market forces. To that end, it is appropriate for slowly rising distribution costs to be reflected in the rate base. As has been shown, however, even the existing Rule H tariff results in Company investment in distribution facilities serving new customers below Staff's estimate of embedded costs. The impression that somehow "growth does not pay its way" is entirely a function of how one characterizes inflation. Mischaracterizing it as a cost of growth to be imposed solely on new customers sends a market signal exactly the opposite of what the Commission has said it desires.

CONCLUSION

For the reasons stated above, and as set forth in Dr. Slaughter's testimony, the Building Contractors urge the Commission to: 1) deny Idaho Power's Application insofar as it seeks to reduce developer refunds and reduce the vested interest recovery period; 2) increase the terminal facilities allowances under its current tariff; 3) provide for periodic true-ups of these allowances; and 4) increase the period from five years to ten years during which vested interest refunds are made. With respect to the manner in which the refunds are made by the Company, Building Contractors also request that the Commission require the Company to provide an itemized statement with each refund payment showing the calculation supporting the amount refunded and identifying the particular line extension, participating developer or customer, subdivision and/or lot for which the refund is being made.

DATED this 1st day of May, 2009.

GIVENS PURSLEY, LLP

By: ______________________
Michael C. Creamer
Attorneys for Intervenor Building Contractors
Association of Southwestern Idaho

CERTIFICATE OF SERVICE

I hereby certify that on the 1st day of May, 2009, a true and correct copy of the foregoing was served upon the following individual(s) by the means indicated:

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