IDAHO POWER®
An IDACORP Company

DONOVAN E. WALKER
Corporate Counsel

May 22, 2009

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-09-07
INCLUSION OF ADVANCED METERING INFRASTRUCTURE ("AMI") INVESTMENT IN RATE BASE

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.

Very truly yours,

Donovan E. Walker

DEW:csb
Enclosures

P.O. Box 70 (83707)
1221 W. Idaho St.
Boise, ID 83702

DONOVAN E. WALKER (ISB No. 5921)
BARTON L. KLINE (ISB No. 1526)
Idaho Power Company
1221 West Idaho Street
P.O. Box 70
Boise, ID 83707
Telephone: 208-388-5317
Facsimile: 208-388-6936
dwalker@idahopower.com
bkline@idahopower.com

Attorneys for Idaho Power Company

Street Address for Express Mail:
1221 West Idaho Street
Boise, Idaho 83702

RECEIVED
2009 MAY 22 AM 10: 49
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES DUE TO THE INCLUSION OF ADVANCED METERING INFRASTRUCTURE ("AMI") INVESTMENT IN RATE BASE.	)	CASE NO. IPC-E-09-07 IDAHO POWER COMPANY'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to the Comments filed by the Commission Staff ("Staff") on May 18, 2009.

With these Reply Comments, the Company urges the Commission to approve the new electric rate schedules set out in Attachment Nos. 1, 2, and 3 to the Application and to authorize a uniform percentage increase of 1.36[1] percent to schedule 1, 3, 4, 5, 7, 9 secondary, 24 secondary, 41 metered service, and 42 customers with an effective date of June 1, 2009, and utilizing the Company's proposed test year of June 1, 2009, to May 31, 2010.

I. BACKGROUND

The Company has emphasized from the inception of the current three-year deployment plan that a timely and successful deployment of Advanced Metering Infrastructure ("AMI") across its system requires a three-year accelerated depreciation of the existing metering infrastructure, along with the recovery in rates of the cost of new metering equipment investment as it is placed in service. The Company also proposed to include the Operation and Maintenance ("O&M") benefits as an offset to rates as such benefits begin to occur. *See* August 31, 2007, AMI Implementation Plan, p. 4, Case No. IPC-E-06-01; Application for Certificate of Public Convenience and Necessity, pp. 2, 12, Case No. IPC-E-08-16; Idaho Power Company's Reply Comments, pp. 2-6, Case No. IPC-E-08-16.

In Case No. IPC-E-08-16, the Commission granted the Company's request for a Certificate of Public Convenience and Necessity ("CPCN") to install AMI technology throughout its service territory. Order No. 30726. The Commission approved the Company's requested three-year accelerated depreciation to coincide with the three-year deployment plan, along with a Capital Cost Commitment Estimate of $70.9 million.

[1] The Company's originally proposed 1.61 percent increase went down to 1.36 percent following issuance of Order No. 30754, the Reconsideration Order from the last general rate case. Staff's Comments also discuss this change. Staff's Comments at pp. 4-5. Similarly, Schedule 3, Master Metered Residential, is added in this same sentence. This is a new schedule from the last general rate case, Case No. IPC-E-08-10, that did not exist when this case was filed. Schedule 3 customers were formerly included in Schedule 1.

Id. The Commission considered and rejected a Commission Staff proposal to use a five-year accelerated depreciation schedule rather than the three-year scheduled proposed by the Company. In so doing, the Commission reiterated its long-standing directive to the Company "to move forward with all deliberate speed with its phased AMI implementation plan." *Id.*, at p. 8.

II. COMPANY RECOMMENDATION

In this Case, the Company has proposed rates to be in place beginning June1, 2009, reflective of (1) the investments made for the installation of AMI throughout its service territory to date, (2) those investments that will be made during a June 1, 2009, through May 31, 2010, test year, (3) 12 months of accelerated depreciation, and (4) O&M benefits that will be derived by May 31, 2010. Application at p. 2.

III. COMMISSION STAFF RECOMMENDATION

Commission Staff states its acceptance of a rate increase for the inclusion of AMI facilities as the equipment is being installed. Staff proposes rates that are reflective of (1) the investments made for the installation of AMI throughout its service territory to date, (2) those investments that will be made during the June 1, 2009, through December 31, 2009, time period, (3) 7 months of accelerated depreciation (June 2009 through December 2009), and (4) O&M benefits that will be derived by December 31, 2009.

Staff accepts and recommends the Company's proposed June 1, 2009, date on which to begin the three-year accelerated depreciation and as the effective date for the rates. Staff also recommends and follows the same methodology used by the Company in its filing for calculating rates reflecting the investment, costs, and benefits – both to date and on a projected basis.

IV. EFFECT OF STAFF RECOMMENDATIONS

As the prior section shows, Staff and the Company are aligned on certain aspects of the treatment of AMI for ratemaking purposes. The Company and Staff part ways on one major aspect of AMI cost recovery – the test year that is used to establish the AMI revenue requirement. Staff recommends moving the test year end date from May 31, 2010, to December 31, 2009. This one, seemingly minor change will have a material adverse affect on the Company's ability to provide adequate cash flow to fund the AMI installations, to move forward on the three-year implementation timeline, and, consequently, to remain within the previously discussed Capital Cost Commitment Estimate. Furthermore, as will be discussed in greater detail later, Staff's recommendation is inconsistent with previous Commission orders. In order for AMI implementation to move forward on schedule, rates for AMI must provide cash flow that matches the installation of new metering equipment made throughout the year following implementation of rates, which includes 12 months of accelerated depreciation on existing metering equipment.

As stated above, upon review of Staff's Comments, the only real driver of the difference between the positions of the Company and the Staff is Staff's proposal to end the test year period at December 31, 2009, instead of carrying it through to May 31, 2010. Staff otherwise supports and adopts the Company's rationale, justification, and methodology for determining the rates. Staff affirmatively states the same in its Comments:

> It [Staff's proposed test year] ***follows the same methodology used by Idaho Power in its filing***. The Staff proposal is also consistent with the methodology discussed in CPCN Case No. IPC-E-08-16, it just isn't projected as far into the future as requested by Idaho Power. Staff believes the inclusion of the AMI facilities in rates as the equipment is installed continues to be reasonable for this project. The phased installation of AMI is specific in nature and the commitment estimate is utilized as a benchmark.

Staff Comments at p. 3 (emphasis added). This methodology and all of the components of the Company's proposal were acknowledged as reasonable by Staff, and even used by Staff in its own calculations. In describing the Company's request, Staff stated:

> The commitment estimate and projected number of meters to be installed each month is the basis for calculating the monthly costs on a per unit cost basis. ***While these calculations are a reasonable estimate to match the project recovery with the installation period***, the installation plan, investment and operating costs and benefits are not tested to the point of accepting a fully forecasted test period for the first recovery phase.

Staff Comments at p. 3 (emphasis added).

With due respect to Staff's statements, the Staff proposal of a January 1, 2009, through December 31, 2009, test year appears to the Company to be nothing more than a reflection of rate base as of mid-year 2009 and 7 months of accelerated depreciation offset by O&M benefits that will be derived by year end. The Company fails to understand how this view is consistent with the prior Commission Orders that envision funding of AMI investments as they occur. The Company also fails to understand why less than 12 months of accelerated depreciation should be reflected in the test year.

Staff states that it "accepts Idaho Power's request to start the three-year accelerated amortization period for existing metering infrastructure on June 1, 2009." Staff Comments at p. 4. While the Company certainly appreciates Staff's concurrence, by changing the test year end date from the Company's proposed date of May 31, 2010, to that proposed by Staff of December 31, 2009, Staff has effectively slowed the recovery of the accelerated depreciation to approximately five years rather than the requested *and authorized* three years. Staff states that it supports the three-year accelerated depreciation, but its recommended rates do not. Whether intentional or not, the effect of Staff's proposed adjustment is to slow cost recovery back to a level that reflects the five-year depreciation schedule Staff originally proposed and the Commission rejected. Staff's proposal essentially contains only 7 months of amortization, but the revenue requirement is for a year. When only 7 months is recovered over 12 months the recovery is approximately 58 percent of what the Company needs to stay on a three-year amortization schedule – which is what is required in order to maintain the three-year AMI implementation schedule.

Staff's stated rationale for changing the test year end date to December 31, 2009, is apparently that "th e installation plan, investment and operating costs and benefits are not tested to the point of accepting a fully forecasted test period for the first recovery phase." Staff Comments at p. 3. Respectfully, it simply does not logically follow that if the Company's plan and the numbers "are not tested" to the point that Staff must reject the Company's proposed test year, that the Staff would simultaneously find the numbers and the methodology reasonable and that Staff could use the same plan, investment, and operating costs and benefits to determine their own proposed rates. Staff's proposal is projected in the exact same way that the Company's proposal is projected, "it just isn't projected as far into the future as requested by Idaho Power." *Id.*

Staff provides no logical support for its conclusion that 7 months of projected amounts are reasonable, but 12 months are not.

V. CONCLUSION

The Company's proposed rates are reasonable, and necessary, in order to match the authorized three-year accelerated depreciation with the three-year deployment plan and recovery of the investment while it is placed into service. With a distinct implementation program such as AMI, there is very little risk in using a projection based upon the Commitment Estimate and the number of meters installed as a basis for calculating the costs on a per unit cost basis.

The Company has been ordered and directed by the Commission on several occasions to come up with a plan and to implement AMI across its entire system. It has been difficult, and it has taken longer than originally anticipated, but with its August 2007 AMI Implementation Plan, the Company was finally able to formulate a workable deployment plan and schedule to accomplish the directive of the Commission. This plan was presented to and accepted by the Commission in its issuance of the CPCN to install AMI throughout the Company's service territory. The Company has emphasized from the beginning that certain ratemaking determinations were necessary in order to make the implementation work. The Company has repeatedly disclosed the same and made the appropriate filings to do so. The AMI deployment is a very substantial capital and cash flow intensive undertaking, and it is unfortunate that history has played out the way it has with the current economic crisis. However, the Company's proposed rates and methodology are reasonable, appropriate, and, more importantly, are necessary in order for the AMI implementation to remain on schedule and consistent with the Commitment Estimate.

Idaho Power respectfully requests that its proposed rates be approved. More specifically, the Company requests that the Commission approve the new electric rate schedules set out in Attachment Nos. 1, 2, and 3 to the Application, authorize a uniform percentage increase of 1.36 percent to schedule 1, 3, 4, 5, 7, 9 secondary, 24 secondary, 41 metered service, and 42 customers with an effective date of June 1, 2009, and utilize the Company's proposed test year of June 1, 2009, to May 31, 2010.

Respectfully submitted this 22nd day of May 2009.

DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 22nd day of May 2009 I served a true and correct copy of the 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 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

Donovan E. Walker