

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-09-07
AUTHORITY TO INCREASE ITS RATES)
DUE TO THE INCLUSION OF ADVANCED)
METERING INFRASTRUCTURE (“AMI”)) ORDER NO. 30829
INVESTMENT IN RATE BASE)
_____)**

On March 13, 2009, Idaho Power Company filed an Application “for authority to increase its rates due to the inclusion of Advance Metering Infrastructure (“AMI”) investment in rate base.” Application at 1. AMI generally refers to upgraded meter technology that is intended to reduce meter reading costs, monitor service outages, and eventually allow customers to use energy more efficiently. On April 2, 2009, the Commission issued a Notice of Application and Modified Procedure establishing a 45-day comment period for interested persons to submit comments regarding Idaho Power’s Application. See Order No. 30764. Thereafter, Commission Staff, the Snake River Alliance and several Idaho Power customers submitted timely comments. On May 22, 2009, Idaho Power submitted reply comments.

THE APPLICATION

Idaho Power proposes “a uniform percentage increase of 1.61 % to Tariff Schedules 1, 4, 5, 7, 9 secondary, 24 secondary, 41 metered service, and 42 (residential, small commercial, irrigation, and metered lighting customer classes).” *Id.* at 3. The Company requests that the proposed increase take effect on June 1, 2009, unless otherwise ordered by the Commission, for service provided on and after that date. *Id.*

Idaho Power cites to “the Company’s investment in AMI through the end of May 2010 into the Company’s rate base/revenue requirement” as justification for the increase. *Id.* at 2. The Company seeks to include the capital investment it has made thus far pursuant a Certificate of Public Convenience and Necessity (CPCN) authorizing the installation of AMI throughout its service territory, *see* Commission Order No. 30726, as well as “those investments that will be made during a June 1, 2009 through May 31, 2010, test year.” *Id.* The Company states that it has included reductions for removed metering equipment and “changes in operating expenses that accompany the changes in plant investment” in its calculations. *Id.* Idaho Power

believes that “the proposed test year and recovery of the resulting revenue requirement” are necessary in order to meet “the increased challenges associated with raising capital in the financial markets during the present financial crisis.” *Id.* at 2-3.

Idaho Power calculates that the “13-month average plant in service associated with the AMI system for the test year is \$23,981,251.” *Id.* at 3. The Company also estimates that after applying the Commission-authorized rate of return of 8.18%, the authorized three-year depreciation period, the operation and maintenance benefits and applicable tax rates, an increase of \$11,181,318 to the Idaho jurisdictional revenue requirement is warranted. *Id.*

Idaho Power has included tariff sheets reflecting the proposed increase to the Idaho jurisdictional revenue requirement and a report comparing revenues under its existing rates and revenues generated under its proposed revenue requirement as Attachments 1-3 to its Application. The Company filed the testimony of Gregory W. Said, Director of State Regulation in the Pricing and Regulatory Services Department, and Courtney Waites, Pricing Analyst, simultaneously with, and in support of, its Application.

COMMENTS

IPUC Staff

Staff supports Idaho Power’s request to include AMI investment in rate base and the Company’s request for a June 1, 2009 effective date. Staff Comments at 3. However, Staff believes that the “appropriate test year should end December 31, 2009.” *Id.* Staff concluded that the Company’s proposed recovery period for AMI investment and associated costs and benefits through May 31, 2010, is not warranted because the Company’s “original installation plan” does not include a significant history of actual installations and project costs. *Id.*

The commitment estimate put forth by Idaho Power is based upon a projection of how many units will be installed on a monthly basis through the three-year installation period. *Id.* Staff feels that it is more appropriate to utilize a test period that takes advantage of the actual investment, costs and benefits incurred to date and project those amounts through the end of the 2009 calendar year. *Id.* A test year consisting of the 2009 calendar year will allow the Company to recover its authorized rate of return, increase its cash flow *and* facilitate the typical project review process. *Id.*

Staff also included two attachments in its comments. Attachment A is a summary of Staff’s proposed revenue requirement (\$7,322,995 line 37 of Attachment A). *Id.* at 4, Atch. A.

Attachment B is an outline of Staff's proposed rate design. Staff asserted that its proposed CY 2009 test year and "the ongoing AMI project reviews and inclusion in base rates of future AMI expenditures" would be more amenable to adjustment than Idaho Power's proposal should the Company receive funds through the American Recovery and Reinvestment Act of 2009 ("ARRA"). *Id.* According to Staff, the Company continues to solicit ARRA funding but thus far has not been granted approval. *Id.*

Staff also reviewed Idaho Power's methodology regarding the allocation of the increased revenue requirement across the various classes impacted by the AMI installation: Schedules 1, 4, 5, 7, 9 Secondary, 24 Secondary, 41 and 42. *Id.* Staff proposes a uniform 1.28% base revenue increase for each affected class based upon its proposed "AMI revenue requirement increase of \$7,322,995 . . . and the current overall base revenue of the affected classes . . . from the reconsideration of the general rate case, Case No. IPC-E-08-10." *Id.* at 5. This differs from the Company's proposed 2.22% energy rate increase for each class which utilizes the ratio of its calculated additional revenue requirement and total energy revenue from the reconsideration of Case No. IPC-E-08-10. *Id.* at 4.

Snake River Alliance

The Snake River Alliance ("SRA") is an Idaho non-profit organization primarily concerned with nuclear safety issues. SRA has also been actively involved in promoting clean energy initiatives. SRA supports the Company's request to include AMI investment in rate base. SRA acknowledges the fact that the total benefits of AMI installation will not be realized immediately. However, the organization believes that the investment is "sound" and that the "eventual benefits will lead to real energy savings that will benefit all customers . . . through reduced energy bills and a reduced need for additional investments in generation and transmission. . . ." SRA Comments at 1.

SRA states that while the Company has taken steps to explain the benefits of AMI to its customers it could "do more to help its customers better understand how to interpret the data on the face of their new meters." *Id.* at 2.

Idaho Power Customers

The Commission received three comments from Idaho Power customers regarding the Application. Two customers were opposed to the increase and one customer took a neutral position. These customers expressed their specific disapproval of the concept of increasing rates

in order to fund the Company's investment in energy conservation and to regular and persistent rate increases in general.

Idaho Power Reply

Idaho Power's reply comments focused upon Staff's recommendation that the Commission approve a test year consisting of the 2009 calendar year. Idaho Power Reply Comments at 4. Idaho Power asserts that Staff's recommended test year will have an "adverse effect 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 . . . remain within the previously discussed Capital Cost Commitment Estimate." *Id.*

The Company believes that Staff's recommendation amounts to "nothing more than a reflection of rate base as of mid-year 2009 and 7 months of accelerated depreciation offset by O&M benefits" and is inconsistent "with the prior Commission Orders that envision funding of AMI investments as they occur." *Id.* Idaho Power does not "understand why less than 12 months of accelerated depreciation should be reflected in the test year." *Id.* at 5. Staff's proposed test year will have the practical effect of slowing the accelerated depreciation period for existing metering infrastructure. *Id.* at 6.

Finally, Idaho Power took exception to Staff's contention that "the Company's plan and numbers 'are not tested'" when Staff used the "same plan, investment, and operating costs and benefits to determine their own proposed rates." *Id.* "Staff provides no logical support for its conclusion that 7 months of projected amounts are reasonable, but 12 months are not." *Id.* at 7.

DISCUSSION AND FINDINGS

We begin our discussion by noting that we have previously found that the "present and future public convenience" would be served by the installation of AMI and ratepayers would benefit from "enhanced outage management and billing accuracy." Order No. 30726 at 8. We also noted that AMI would inevitably serve as an essential platform for the institution of "smart grid operations" and allow for the expansion of the Company's existing time-of-day and energy watch programs. *Id.*

Based upon our review of the filings and the record in this case, the Commission approves Idaho Power's request to recover its AMI investment but we do not accept the Company's proposed test year. The Commission is not persuaded by Idaho Power's request for

a future test year beginning June 1, 2009, and extending through May 31, 2010. Instead, we find that Staff's position of calculating the actual costs already incurred by the Company, as well as the benefits, and annualizing those amounts through the end of the 2009 calendar year to be the more reasonable approach. We are confident that such an approach will provide the necessary protection to ratepayers and ensure that the Company is able to maintain adequate cash flow and access to sufficient capital to maintain a secure financial footing in the midst of the current economic downturn.

The Commission has previously authorized the Company to recover the depreciation on its existing metering infrastructure over an accelerated three-year period. *Id.* at 10. The Commission finds that it is reasonable to allow this accelerated depreciation to begin on June 1, 2009, as requested by the Company and supported by Staff. The Commission acknowledges Idaho Power's concern that Staff's proposal does not comply with the Commission's prior authorization of an accelerated depreciation scheme because it reflects "less than 12 months of accelerated depreciation." Idaho Power Reply Comments at 4-5. Subsequently, the Commission has obtained updated information and data from Idaho Power which eliminates this discrepancy and allows the Company to recover 12 months of accelerated depreciation expense for the 2009 calendar year.

The Commission finds that the annualized depreciation expense on new plant and the removal of existing plant, accumulated depreciation, deferred taxes and income taxes is reasonable when calculated in accordance with the 2009 calendar test year. The resulting depreciation expense is \$9,227,270 for the Idaho jurisdiction. Other key numbers include the following:

Rate Base	\$3,802,609
Operating Expense	\$6,081,976
Revenue Deficiency	\$10,497,354

The Commission orders that the revenue deficiency be spread over the affected classes (Schedules 1, 4, 5, 7, 9 Secondary, 24 Secondary, 41 metered service, and 42 (residential, small commercial, irrigation, and metered lighting customer classes), leading to an average increase of 1.83% for each of the affected classes. *See* Attachment A.

The Commission is appreciative of the supportive comments submitted by SRA and agrees with the organization's assertion that AMI investment will offer substantial benefits to

ratepayers well into the future. The Commission also understands and sympathizes with the short-term ratepayer concerns associated with a utility's request to recover its infrastructure costs in rate base – leading to an increase in rates. Nevertheless, the Commission must also keep an eye toward the future and maintain a proactive approach that will best serve long-term customer interests. In furtherance of that approach, we find it necessary and reasonable to encourage Idaho Power to institute appropriate and effective demand-side measures enabled by AMI installation.

We reiterate our admonition that Idaho Power adhere to the phased implementation plan disclosed in its applications. Accordingly, the Commission orders the Company to seek the Commission's approval before making any decision that may lead to a deviation from its implementation plan.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, an electric utility, and the issues presented in this case pursuant to Title 61 of the Idaho Code, specifically *Idaho Code* §§ 61-302, 61-336, 61-501, 61-503, 61-526 and 61-624.

ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power Company for authority to recover its Advance Metering Infrastructure investment in rate base, is approved as conditioned above. The Company is authorized to recover \$10,497,354, or 1.83%, in additional revenue based upon a CY 2009 test year.

IT IS FURTHER ORDERED that the revenue deficiency be spread over the affected classes (Schedules 1, 4, 5, 7, 9 Secondary, 24 Secondary, 41 metered service, 42 metered lighting). Idaho Power shall file tariff schedules conforming to this Order within seven (7) days from the date of this Order.

IT IS FURTHER ORDERED that the rate increases set out in Attachment A shall be effective for service rendered on and after June 1, 2009.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

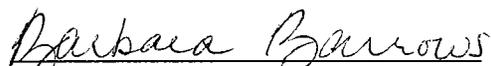
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of May 2009.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Barbara Barrows
Assistant Commission Secretary

O:IPC-E-09-07_np2

Idaho Power Company
Summary of Revenue Requirement

RATE BASE	AMI
	Idaho
Electric Plant in Service:	
1 Intangible Plant	\$ 302,428
2 Production Plant	\$ -
3 Transmission Plant	\$ -
4 Distribution Plant	\$ 12,831,765
5 General Plant	\$ -
6 Total Electric Plant in Service	\$ 13,134,193
7 Less: Accumulated Depreciation	\$ 8,262,950
8 Less: Amortization of Other Plant	\$ 32,423
9 Net Electric Plant in Service	\$ 4,838,820
10 Less: Customer Adv for Construction	\$ -
11 Less: Accum Deferred Income Taxes	\$ 1,036,211
12 Add: Plant Held for Future Use	\$ -
13 Add: Working Capital	\$ -
14 Add: Conservation - Other Deferred Progr	\$ -
15 Add: Subsidiary Rate Base	\$ -
16 TOTAL COMBINED RATE BASE	\$ 3,802,609
NET INCOME	Idaho
Operating Revenues:	
17 Sales Revenues	0
18 Other Operating Revenues	0
19 Total Operating Revenues	0
Operating Expenses:	
21 Operation & Maintenance Expenses	(262,828)
22 Depreciation Expenses	9,227,270
23 Amortization of Limited Term Plant	119,412
24 Taxes Other Than Income	0
Regulatory Debits/Credits	0
25 Provision For Deferred Income Taxes	2,072,421
26 Investment Tax Credit Adjustment	830,654
27 Federal Income Taxes	(4,900,057)
28 State Income Taxes	(1,004,896)
29 Total Operating Expenses	6,081,976
30 Operating Income	(6,081,976)
31 Add: IERCO Operating Income	0
32 Consolidated Operating Income	(6,081,976)
33 Rate of Return as filed	-159.94%
34 Proposed Rate of Return	8.18%
Earnings Deficiency	6,393,029
Add: Construction Work in Progress	0
35 Earnings Deficiency w/CWIP	6,393,029
36 Net-to-Gross Tax Multiplier	1.642
37 Revenue Deficiency	10,497,354
Firm Jurisdictional Revenue	