BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF GLANBIA FOODS, INC. FOR APPROVAL OF A LINE EXTENSION ALLOWANCE PURSUANT TO IDAHO POWER COMPANY'S RULE H.	)	CASE NO. IPC-E-13-09 ORDER NO. 32893

On April 5, 2013, Glanbia Foods, Inc. (Glanbia) filed a Petition requesting that Idaho Power be directed to provide it an allowance under its Rule H tariff. Idaho Power's Rule H tariff sets forth terms for the Company to accommodate line extension requests that require improvements to electric service facilities. Glanbia also contended that it should be compensated for the value of capacity that would be freed-up at the substation that would no longer be used to provide service to Glanbia. In addition, Glanbia requested that it be granted a vested interest in any facilities it funds that are made available for use by other future customers. *Id.*, pp. 3-4. Finally, Glanbia asked the Commission to require Idaho Power to (a) competitively bid the material and work on the upgrade, (b) provide audited records of the transaction, and (c) allow Glanbia to be included in the design, engineering, and selection of contractors. *Id.*, p. 4.

Idaho Power filed an answer on April 26, 2013, and the Commission later issued Order No. 32803 establishing a comment period agreed to by the parties. On July 11, 2013, the Commission issued Order No. 32848 extending the comment period for an additional 21 days and directed the parties to "file written comments discussing an appropriate calculation of an allowance for Glanbia's proposed electric facilities upgrade." Order No. 32848, p. 7. The Commission further directed the parties to consider how to structure an allowance so that it does not create a cost risk to Idaho Power's other customers.

On July 26, 2013, Staff filed a Motion to extend the comment period to August 22, 2013, stating "an opportunity for the parties to discuss an appropriate allowance for Glanbia's project could be beneficial, but it is not possible for the parties to develop a possible allowance and meet to discuss it before the comment period expires on August 1, 2013." On July 31, 2013, the Commission issued Order No. 32862 extending the period for parties to file supplemental comments to August 22, 2013.

Idaho Power, Commission Staff and Glanbia met on August 5, 3013, but were not able to develop a proposal for calculating an allowance that was acceptable to all parties. On August 22, 2013, all three parties filed additional comments as requested by the Commission.

Glanbia's Additional Comments

Glanbia in its comments assumed the Commission, by referencing the allowance for residential customers based on the cost of standard terminal facilities, intended that Glanbia should also be provided an allowance equal to its "terminal facilities." Glanbia asserts that the terminal facilities required to serve only Glanbia are the transformer and related equipment. Glanbia Comments, pp. 2-3. Idaho Power estimated the cost for what Glanbia now calls "terminal facilities" to be approximately $3,784,127. Glanbia contends this is the amount, "according to the Commission's current policy on allowances, of the allowance due Glanbia." Glanbia Additional Comments, p. 3.

To address the Commission's concern that any allowance provided Glanbia not place undue risk on other customers, Glanbia stated it would be willing to execute a note or other guarantee, in a form satisfactory to the Commission, that would be due in the event the Glanbia facility closes or significantly reduces its power consumption.

Glanbia reiterated its request that it be provided a right to claim excess capacity on the line for which it is paying for a time certain. Glanbia recommended that its reserve capacity on the new line be preserved for at least a 20-year period. Glanbia Additional Comments, p. 4. Finally, although Glanbia now disclaims any right to a vested interest in the additional capacity, Glanbia asserts it is important for the Commission to recognize, "as it considers Glanbia's request herein, that its expansion will have beneficial effects on the Company and its ratepayers over and above the additional revenue the Company will realize as a result of Glanbia's expansion." Glanbia Additional Comments, pp. 4-5.

Staff's Supplemental Comments

Staff in its comments arrived at a proposed allowance for Glanbia in the amount of $1,248,946. Staff used an approach similar to that used to determine allowances for other customers, starting with determining the "standard terminal facilities" for those customers. Staff acknowledged it is difficult to define a comparable set of standard terminal facilities for Schedule 19 customers because, unlike the residential, commercial and irrigation customer classes, the industrial class is much more diverse in the size and type of facilities required by each customer. Staff noted that a 30 megavolt-ampere (MVA) transformer is the smallest size transformer normally added at substations to serve growing loads. The current estimated cost for a standard set of 30 MVA transformer facilities, including labor and vehicles, is $1,688,942, according to information provided by Idaho Power. Staff Comments, p. 5. With general overhead costs added, the amount becomes $1,972,009, which when divided by 30 MVA, results in a cost per MVA of $65,734. Staff believes this amount can reasonably be considered "standard terminal facilities unit cost" comparable to the standard terminal facilities used as a basis for allowances for other customer classes. *Id.* To determine a proposed allowance for Glanbia, Staff recommended the $65,734 per MVA allowance be applied to the capacity being added by the customer. If Glanbia proceeds with the project, it will be adding a new substation with a 30 MVA capacity, at a cost of approximately $3.7 million, and additionally will require the construction of approximately 10 miles of 138 kV transmission line at a cost of approximately $4.5 million. The load to be served by the new facilities is expected to be 19 MW. Staff proposed that its allowance be based on the 19 MW being constructed for Glanbia's use, entitling Glanbia to an allowance of $1,248,946 ($65,734 per MW x 19 MW). Staff Supplemental Comments, p. 6.

In response to the Commission's concern that an allowance be structured to minimize risks to Idaho Power's other customers, Staff proposed its recommended allowance be credited in five equal annual installments of $249,789. If Glanbia does not maintain its operations for the five-year term, it will not receive its full allowance. Staff also suggested that at the end of the fifth year, if consumption is not what was anticipated when the allowance was calculated, Idaho Power should be permitted to adjust the fifth year allowance credit based on the actual load served in the fifth year. Staff Supplemental Comments, p. 7.

Idaho Power's Additional Comments

Although Idaho Power believes its current practice of requiring each Schedule 19 customer to pay for transmission and substation facilities that only benefit the requesting customer is still the best policy, the Company formulated a methodology to determine an allowance for Schedule 19 customers that requires substation alterations or upgrades. The Company determined a new fixed substation allowance for Schedule 19 customers based upon a similar approach as taken in Rule H allowances for distribution terminal facilities. The Company first determined the average annual demand for a typical Schedule 19 customer to be 3

MW. Idaho Power Additional Comments, p. 6. The Company next considered what "terminal" facilities would be installed to serve that customer, and concluded that the majority of Schedule 19 customers are fed off a 30 MVA or higher transformer. The Company thus determined that its standard installation request for a Schedule 19 customer would involve a 30 MVA transformer and related grounding and safety equipment required for installation. Idaho Power stated that "if the Commission chooses to change the existing policy, then a fixed substation allowance that provides an offset for the facilities required to provide service to the 'typical' Schedule 19 customer would provide a fair and equitable method that could be applied to all customers within the class." Idaho Power Additional Comments, p. 7. With this rationale, the Company calculated a prorated share of the 30 MVA transformer installation cost to arrive at a fixed substation allowance amount of $197,202. Idaho Power Additional Comments, pp. 7-8. The Company asserts this approach is consistent with its distribution line extension policy, Rule H, in which standard terminal facilities are provided for all residential and commercial customers. Those customers who require facilities above the standard facilities would be required to pay for them.

If the Commission implements a Schedule 19 substation allowance, Idaho Power recommended its tariff be modified to recognize that Schedule 19 customers could be entitled to a substation allowance. The Company also recommended updating the fixed substation allowance annually coincident with updating distribution allowances in Rule H. Idaho Power also argues that any Schedule 19 customer who requests a substation upgrade should be entitled to only one allowance. In this case, Idaho Power contends Glanbia would not be entitled to a substation allowance because it already received a benefit of free capacity when it originally requested service from the Company. Idaho Power Additional Comments, p. 9.

Other Issues

A few issues remain that the Commission did not address in Order No. 32848. Glanbia's Petition asserts that it has been unable to obtain a commitment from Idaho Power that Glanbia will be allowed to verify that the facilities upgrade will be competitively and transparently bid. Glanbia Petition, p. 4. Nor has Glanbia been assured it will be permitted to audit the transactions related for the project. *Id.* Accordingly, Glanbia asked the Commission to require Idaho Power to (a) competitively bid the material and work on the upgrade, (b) provide audited records of the transaction, and (3) allow Glanbia to be included in the design, engineering and selection of contractors. *Id.*

Idaho Power requested that the Commission deny Glanbia's request to allow it to participate in the Company's design, engineering, and selection of contractors for the project. Idaho Power solicited non-binding proposals from four contractors for Glanbia's project, and received responses from all four in March 2013. If Glanbia proceeds with the project, the Company will perform a true-up of actual costs and will refund amounts to Glanbia or collect amounts from Glanbia where estimated costs are more or less than actual costs. Idaho Power will also provide a detailed cost report showing all charges to the work involved in completing the installation of the necessary facilities for Glanbia. Idaho Power Answer, p. 12. Staff believes Idaho Power has made a good faith effort to ensure that the facilities will be constructed at the lowest cost to Glanbia. Staff Comments, p. 9.

Glanbia initially requested compensation for a Company Betterment benefit. If the improvements are made, capacity in the Toponis substation will be freed-up, allowing approximately 10 MW of capacity in that substation to be used to serve other customers. Idaho Power concluded after reviewing its load forecast for the area that there is no indication for additional capacity needs in that substation in the near-term. Idaho Power also asserts it will not benefit from operation or maintenance efficiencies if Glanbia's project is completed. Idaho Power Answer, p. 10. Accordingly, the Company does not believe Glanbia is entitled to a credit for Company Betterment under Rule H. Staff also does not believe Glanbia is entitled to a Company Betterment credit. Although the existing substation that currently serves Glanbia will no longer be used for that purpose, thus freeing up capacity to serve other customers, Staff does not believe the freed-up substation capacity will likely lead to any customer benefit in the near future. Staff Comments, p. 8.

Glanbia requested that it receive a Vested Interest in the event the improved facilities become available for use by other customers. Under Rule H, Vested Interest is defined as the right to a refund that an applicant holds in a specific section of distribution facilities when additional customers attach to the section of distribution facilities improved by the applicant. Idaho Power Answer, pp. 10-11. In addition, Glanbia requested the Company guarantee that Glanbia will have access to the full nameplate capacity of the expansion it pays for at no additional cost should Glanbia's future expansions call for additional capacity. In response, the

Company stated it does not anticipate any additional load in the area in the near future and thus more than adequate capacity should be available when needed. As a general rule, the Company's practice is to maintain capacity for projects that have been funded by a customer for a five-year period, and Idaho Power believes this assurance should alleviate Glanbia's concerns. Idaho Power Reply Comments, p. 12.

COMMISSION DECISION

The Commission began its discussion in Order No. 32848 with a brief review of allowances to clarify the Commission's intent regarding allowances for Schedule 19 customers. The Commission noted it approved new allowances against distribution plant costs for residential customers based on the cost to provide standard terminal facilities for each of those customers. The important factor in establishing the allowance is that it is based on the costs of those standard terminal facilities that will be used to serve only the customer who is paying for the facility improvements. Order No. 32848, pp. 5-6. Idaho Power had incorrectly concluded from the Commission's Orders in Case No. IPC-E-08-22 that the Commission intended to eliminate allowances for Schedule 19 customers "simply because those customers normally are not served by the same 'standard terminal facilities' required to serve residential customers." Order No. 32848, p. 6. The Commission also noted that allowances for Schedule 19 customers are not precluded by Idaho Power's Rule H tariff. The tariff provides that arrangements for installation of Schedule 19 customers' facilities will be made on a case-by-case basis and, although it is appropriate that a customer requesting specific facilities be asked to pay for them, it also may be appropriate to provide an allowance against the construction costs "to recognize the customer and all other Schedule 19 customers will continue to pay for a portion of those facilities in electric rates." *Id.*

In this case, Glanbia requests construction of facilities that will cost at minimum $8.3 million. Once the upgrade is complete and Glanbia has increased its consumption, it estimates its annual electric bill will be in excess of $7 million. Glanbia Additional Comments p. 3. The Commission finds it reasonable and appropriate on the record in this case that a Schedule 19 customer who requests the construction of facilities that will be used and can be identified to serve only that customer be given an allowance consistent with existing policy and Schedule 19.

The Company in its comments proposes a substation allowance for Schedule 19 customers using a similar approach as that taken in Rule H allowances for distribution terminal facilities. Idaho Power determined that a standard installation request for a Schedule 19 customer involves a 30 MVA transformer and related grounding and safety equipment required for installation, at a cost in excess of $1.9 million. Idaho Power Additional Comments, pp. 7-8. The Company used the load size typical for a Schedule 19 customer (3 MW) to prorate a share of the 30 MVA transformer installation cost to arrive at a fixed substation allowance amount of $197,202 ($1.9 ÷ 30 x 3 = $197,202). Idaho Power Additional Comments, pp. 7-8. The Company stated its concept "is consistent with the Company's distribution line extension policy, Rule H, in which standard terminal facilities are provided for all residential and commercial customers, but those who require facilities above those that are standard must pay for those facilities." *Id.*

In determining its allowance proposal, Staff began with Idaho Power's definition of standard terminal facilities for a Schedule 19 customer. Staff concluded that installation of a 30 MVA transformer as a standard minimum "could reasonably be considered a 'standard terminal facilities unit cost,' comparable to the standard terminal facilities used as a basis for determining allowances for other customer classes." Staff Supplemental Comments, p. 5. Staff divided the $1.9 million cost for the 30 MVA by 30 to arrive at a cost per MVA of $65,734. *Id.* Staff proposed that this amount be adopted as a standard terminal facilities unit allowance for Schedule 19 customers and that it be applied to the additional load constructed for the customer. In this case, Glanbia plans to use a 19 MW share of the new transmission and substation facilities, and thus Staff proposed that Glanbia be entitled to an allowance of $65,734 per MW times 19 MW, or $1,248,946. Staff Supplemental Comments, p. 6.

The Commission finds the determination of standard terminal facilities equivalent for Schedule 19 customers as proposed by Idaho Power, but applied on a per MW basis to the customer load expected to be provided through the improved facilities as proposed by Staff, is a just, reasonable and equitable determination of allowances for Schedule 19 customers. That methodology results in a maximum possible allowance of $1,248,946 for Glanbia against its construction costs. As both Staff and Idaho Power point out, by establishing a standard terminal facilities equivalent, this derivation of allowances for Schedule 19 customers is consistent with the way allowances are derived for other Idaho Power customers. It is consistent with existing policy behind allowances in Rule H that customers who need and request facilities improvements should pay their costs. At the same time, Idaho Power and all its customers benefit by a policy that encourages improvements to company facilities that are not included in rate base when paid for by individual customers. On the record in this case, the Commission finds an allowance of $1,248,946 against Glanbia's construction costs is fair, just and reasonable.

The Commission asked the parties to consider how a Schedule 19 allowance can be structured to minimize risk that Idaho Power's body of customers could end up paying for the allowance in their rates. Order No. 32848 p. 6. Staff recommended the allowance be credited against the customer's electric bill in five equal annual installments, with an adjustment in the fifth year if the customer fails to take energy as projected when the allowance amount is determined. The Commission finds crediting the allowance against the customer's energy bill during a five-year period is a reasonable way to provide the allowance to the customer while ensuring the credit amount does not increase other customer rates. Rather than equal credit amounts, however, the allowance amount and the timing of credit payments will be determined by the customer's increase in electric load over the five-year period. The allowance amount initially determined by the projected increase in load is the maximum allowance available. The customer will receive a portion of the allowance each year that load increases during the five-year period. If customer load reaches the projected maximum load at any time during the five-year period, the customer will receive the full remaining allowance over the remaining five-year period as long as maximum load is maintained. Conversely, if there is no increase in load during the five-year period, the customer will receive no allowance credit. Increases in load less than the amount projected will result in smaller credits.[1] Thus, the customer's anticipated use is a large component of the allowance calculation, and making an adjustment if the consumption falls short will discourage speculative projections of energy consumption.

To ensure uniformity in determining allowances for Schedule 19 customers, the Commission adopts a "standard terminal facilities unit allowance" method for determining Schedule 19 allowances. The current amount of the allowance should be equal to $65,734 per MW times the number of megawatt capacity being added by the customer. The amount of the

[1] If the actual load increases from one year to the next during this five-year period, the allowance for that year will be adjusted upward with the following calculation:

> ((Increase in load from the previous year as measured in MW) x (Allowance per MW))/Years remaining in five-year period.

The adjustment will be added to the allowance received in the previous year. If there is no increase in load from the previous year, the allowance for that year is equal to the allowance from the previous year.

allowance will be recalculated annually following the same schedule Idaho Power uses to update line extension allowances for other customer classes. Schedule 19 allowances will be credited to customers based on the customer's increase in load over the five-year period, and the total credit amount can be adjusted if the customer's load is not what was anticipated when the construction costs and allowance amounts were determined.

A few issues remain that the Commission did not address in Order No. 32848. Glanbia asked the Commission to require Idaho Power to (a) competitively bid the material and work on the upgrade, (b) provide audited records of the transaction, and (c) allow Glanbia to be included in the design, engineering and selection of contractors. *Id.* Idaho Power solicited non-binding proposals from four contractors for Glanbia's project, and received responses from all four in March 2013. If Glanbia proceeds with the project, the Company stated it will perform a true-up of actual costs and will refund amounts to Glanbia or collect amounts from Glanbia where estimated costs are more or less than actual costs. Idaho Power will also provide a detailed cost report showing all charges to the work involved in completing the installation of the necessary facilities for Glanbia. Idaho Power Answer, p. 12. Staff believes Idaho Power has made a good faith effort to ensure that the facilities will be constructed at the lowest cost to Glanbia. Staff Comments, pp. 8-9. The Commission finds that Idaho Power has obtained competitive bids for the improvements Glanbia requests, and that its bid process will ensure a competitive cost for Glanbia's improvements. Nonetheless, Glanbia is committing to a significant improvement to Idaho Power's system, and is entitled to reasonable assurances throughout the process that the total costs are in-line with projections obtained through the bid process. Idaho Power has committed to providing a detailed cost report, but cost information should be provided to Glanbia throughout the construction. The Commission does not find on the record evidence to support a specific direction to Idaho Power regarding the bid and construction process, but strongly encourages the Company to provide as complete information to Glanbia as possible during and after construction.

Glanbia initially requested compensation for a Company Betterment benefit. If the improvements are made, capacity in the Toponis substation currently serving Glanbia will be freed-up, allowing approximately 10 MW of capacity in that substation to be used to serve other customers. Idaho Power concluded after reviewing its load forecast for the area that there is no indication for additional capacity needs in that substation in the near-term. Idaho Power also asserts it will not benefit from operation or maintenance efficiencies if Glanbia's project is completed. Idaho Power Answer, p. 10. Staff also does not believe Glanbia is entitled to a Company Betterment credit because the freed-up substation capacity is unlikely to lead to any customer benefit in the near future. Staff Comments, p. 8. On this record the Commission finds Glanbia is not entitled to a Company Betterment credit.

Glanbia requested that it receive a Vested Interest in the event the improved facilities become available for use by other customers. Under Rule H, Vested Interest is defined as the right to a refund that an applicant holds in a specific section of distribution facilities when additional customers attach to the section of distribution facilities improved by the applicant. Idaho Power Answer, pp. 10-11. Idaho Power initially opposed a Vested Interest for Glanbia consistent with the Company's argument that Glanbia was not entitled to an allowance. With no allowance, there could be no Vested Interest. Idaho Power Answer, pp. 7-11. Idaho Power later argued that granting Glanbia a Vested Interest would violate its Open Access Transmission Tariff approved by the Federal Energy Regulatory Commission. Idaho Power Reply Comments, pp. 10-11. Staff asserted Glanbia should receive a Vested Interest for five years, while acknowledging "it seems unlikely that any new customers large enough to take service at transmission-level voltage would emerge in the five year vested interest refund period." Staff Comments, pp. 7-8.

Glanbia also requested that the Company guarantee that Glanbia will have access to the full nameplate capacity of the expansion it pays for at no additional cost should Glanbia's future expansions call for additional capacity. In response, the Company stated it does not anticipate any additional load in the area in the near future and thus more than adequate capacity should be available to Glanbia when needed. As a general rule, the Company's practice is to maintain capacity for projects that have been funded by a customer for a five-year period, and Idaho Power believes this assurance should alleviate Glanbia's concerns. Idaho Power Reply Comments, p. 12.

Granting a Vested Interest to a customer who pays for facility improvements has long been part of the allowance methodology, and the Commission finds it must be available to Glanbia in this case. The Commission finds it fair, just and reasonable that Glanbia be given a Vested Interest in the transmission facilities it is having constructed for five years. In addition, Idaho Power stated it will guarantee that Glanbia will have access to excess capacity in the facilities it is funding for no less than five years. Both of these provisions can be accommodated in this case to assure that Glanbia has facilities it paid for available when needed and is reimbursed if these facilities are used by another customer.

ORDER

IT IS HEREBY ORDERED that a "standard terminal facilities unit allowance" method will be used for determining Schedule 19 allowances. The current amount of the allowance is \$65,734 per MW times the number of megawatt capacity being added by the customer, resulting in an allowance to Glanbia in the amount of \$1,248,946.

IT IS FURTHER ORDERED that the amount of the Schedule 19 unit allowance will be recalculated annually by Idaho Power on the same schedule it uses to update line extension allowances for other customer classes. Schedule 19 allowances will be credited to customers in annual installments, and the credit amount will be adjusted each year if the customer's load is not what was anticipated when the construction costs and allowance amounts were determined.

IT IS FURTHER ORDERED that Idaho Power grant to Glanbia a Vested Interest in the transmission facilities it is constructing for five years following completion of construction. In addition, Idaho Power must ensure that Glanbia has access to excess capacity in the facilities for no less than five years.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of 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 19th day of September 2013.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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