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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE PETITION OF)
GLANBIA FOODS, INC. FOR APPROVAL) CASE NO. IPC-E-13-09
OF A LINE EXTENSION ALLOWANCE)
PURSUANT TO IDAHO POWER COMPANY'S)
RULE H.) SUPPLEMENTAL COMMENTS
) OF THE COMMISSION STAFF
)
)
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COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to Procedural Order No. 32803 on May 7, 2013, submits the following comments.

BACKGROUND

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's Petition asked the Commission to "issue its Order requiring Idaho Power to provide it with an allowance for its proposed line extension in the amount of \$2,318,000 or other such amount it determines is appropriately calculated pursuant to the Commission's methodology underlying Rule H." Glanbia Petition, p. 6. Glanbia also

contended that it should be compensated for the value of capacity that would be freed up at the substation currently used to provide service to Glanbia, which would no longer be necessary if a new substation is built to provide service. Glanbia also contended that it should be granted a vested interest in any facilities it funds that are made available for use by potential future customers. *Id.* at p. 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.* at p. 4.

Idaho Power filed an answer on April 26, 2013. In its answer, Idaho Power maintained that it evaluated Glanbia's request in a fair manner, consistent with previous evaluations of customers with growing loads. The Company stated that it properly followed its tariff, rules and regulations in assessing Glanbia's proposals. Idaho Power Answer at p. 6.

On July 11, 2013, the Commission issued Order No. 32848 in which it clarified its intent regarding allowances for Schedule 19 customers. The Order also extended 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." 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, 2013 in an attempt to develop a proposal for calculating an allowance that was acceptable to all parties. Idaho Power made a proposal, which Glanbia and Staff requested additional time to consider. On August 13, 2013, the parties were scheduled to meet again, but the meeting was canceled because the parties were unwilling to move further toward a compromise.

STAFF REVIEW

Definition and Purpose of Allowances

The cost of distribution facilities needed to serve new customers has historically been shared between the customer and the utility. The individual customer's share is paid through upfront charges imposed by the utility at the time the facilities are installed. The utility's share, referred to as an allowance, is recovered by the utility over time through the rates charged to all customers.

The primary purpose of an allowance is to lower the cost barrier customers face when requesting new or additional service. The cost of distribution facilities needed to serve a new customer can be thousands of dollars, even for a residential customer, and tens or hundreds of thousands of dollars or more for commercial, irrigation or industrial customers. By providing an allowance, the amount of upfront charges to be paid by the customer is reduced and the utility recovers the remaining cost of the investment over an extended period of time.

Approaches to Establishing Allowances

There have been several different approaches employed throughout utilities' histories in Idaho. For many years, the utilities used a "times revenue" approach, which consisted of the utilities providing an allowance equal to some multiple of the estimated annual revenue to be expected to be generated by the customer. The multiples ranged from one times annual revenue to as much as ten times annual revenue depending on circumstances at the time and how promotional the utility wanted to be in attracting new customers. For example, following the completion by Idaho Power of its Hells Canyon projects, all customers benefitted from a very promotional policy because the more new customers added, the more revenue could be generated to pay for the cost of the facilities and utilize excess capacity. The "times revenue" approach was a way to establish an allowance that recognized, in a general way, that allowances were recovered through rates, and that customers who generated more revenue contributed more towards recovery of distribution costs and thus should be entitled to a greater allowance. Avista's current allowance for industrial customers is one form of this type of allowance because it is equal to \$0.06 per kWh times the customer's estimated energy usage.

At other times, allowances have been set equal to "terminal facilities" or some dollar equivalent, sometimes with additional amounts included to further increase the allowance. Idaho

Power's current line extension policy is based on this approach, but it has also been used in the past by other utilities.

In 1995, the Commission adopted an "embedded cost" approach to determining allowances. Under an embedded cost approach, allowance amounts are determined by identifying that portion of current rates that is recovering specific distribution-related costs. The rationale behind an embedded cost approach is that because new customers will be paying exactly the same rates as existing customers, they should be entitled to an allowance amount that can be supported by current rates. The primary objectives of an embedded cost approach are to relieve upward pressure on rates and to treat new and existing customers equally. An embedded cost approach makes sense during times of rapid growth so that growth "pays for itself." PacifiCorp's current allowance for industrial customers is based on embedded cost approach and is equal to \$90 per kW of estimated load.

In 2008, in Case No. IPC-E-08-22, the Commission adopted Idaho Power's proposal to set allowance amounts based on the cost of "standard terminal facilities." A specific set of transformer, meter, and service facilities was identified for each customer class except industrial, and the cost of those facilities formed the basis for the allowance amount. Each year, the cost of those specific facilities is updated to current costs and the allowance amount is increased or decreased accordingly. This approach can be considered forward-looking because it determines in advance how much new distribution plant cost will be recovered through rates and how much will be recovered from customers through up front charges. Under a forward-looking approach, allowances are not based at all on embedded costs. Instead, the reverse is true – embedded costs become the product of the allowance policy rather than forming the basis for it.

Standard Terminal Facilities

For non-industrial customers, "standard terminal facilities" have been defined by Idaho Power to be the overhead terminal facilities the Company considers to be most commonly installed for overhead single phase and three phase services. Single phase standard terminal facilities include the cost of providing and installing one overhead service conductor and one 25 kVA transformer to serve a 200 amperage meter base. Three phase standard terminal facilities include the cost of providing and installing one overhead service conductor and three 15 kVA transformers to serve a 200 amperage meter base. Based on these definitions and the corresponding specific facilities, allowances are currently \$2,200 and \$4,091 for single and three

phase customers respectively. These allowances are the same for all non-industrial customers, regardless of each customer's load or expected revenue generation.

For Schedule 19, the industrial class, it is very difficult to define a comparable set of "standard terminal facilities." Schedule 19 includes customers with demand from one MW up to 20 MW. Unlike the residential, commercial and irrigation classes where customers typically can be served by relatively similar facilities, the industrial class is much more diverse in terms of the size and type of facilities required by each customer.

Elements of a Standard Terminal Facilities Approach

Because the Commission clearly rejected an embedded cost approach in Order No. 32848, Staff chose to develop a standard terminal facilities approach for the industrial class, similar to the approach used for other customer classes. Staff obtained information from Idaho Power in an attempt to define what "standard terminal facilities" might be for the industrial class. The Company provided information that assumed transformation facilities were the only terminal facility element for the industrial class. Service drops are not typical for industrial customers because they take service at transmission voltages, and meters, the other component of terminal facilities, are provided to customers in all classes at no charge.

Idaho Power provided Staff with a list of transformation facilities for a 30 MVA transformer, comparable to the transformation components that form the basis for allowances for other classes. A 30 MVA transformer was used as a basis for the costs because it is the smallest size transformer normally added at substations by Idaho Power to serve growing loads. Even if new industrial load were added that required far less than 30 MVA, a 30 MVA transformer would be added anyway as long as a substation upgrade was being made. Attachment A provides an itemized list of the 30 MVA transformation facilities as installed by Idaho Power. The current estimated cost for this standard set of 30 MVA transformation facilities, including labor and vehicles, is \$1,688,942. Once general overheads are added, this amount becomes \$1,972,009. When this amount is divided by 30 MVA, the cost per MVA is \$65,734. Because this amount is based on installation of a 30 MVA transformer as a standard minimum, regardless of the size transformer that would actually be installed, Staff believes this amount 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 Proposed Standard Terminal Facilities Approach

Staff proposes that the amount of \$65,734 per MVA be adopted as a "standard terminal facilities unit allowance" for Schedule 19 customers. Staff recommends that the \$65,734 per MVA allowance be applied to whatever incremental facilities are added by Idaho Power that are, in turn, paid for by the customer.¹

Just as allowance amounts are updated annually for residential, commercial and irrigation customer classes, Staff proposes that allowance amounts be updated annually for Schedule 19. Because the standard terminal facilities unit cost proposed by Staff (\$65,734 per MW) is derived from the costs of a specific set of materials, the cost of those materials, along with the associated costs for labor, vehicles and overhead, can be updated annually. Staff proposes that those costs be updated annually on the same schedule currently used to update allowances and line extension charges for other customer classes.

Application of Staff Proposal to Glanbia

If Glanbia proceeds with its project, it will be paying the full cost of adding a new substation with 30 MVA capacity (\$3,784,127), in addition to the cost for Idaho Power to construct approximately 10 miles of 138 kV transmission line (\$4,545,877). Glanbia's load to be served by the new facilities is expected to be 19 MW (9 MW existing, 3 MW already added using existing facilities, 7 MW new load). Because Glanbia will be utilizing a 19 MW share of the new transmission and substation facilities, Staff proposes that its allowance be based on 19 MW. In other words, Staff proposes that Glanbia be entitled to an allowance of \$65,734 per MW times 19 MW, or \$1,248,946.

Application of Staff Proposal to Other Schedule 19 Customers

If the Commission adopts Staff's proposal for Glanbia, Staff recommends that the same principles be followed in applying the allowance to other Schedule 19 customers. Those principles are as follows:

¹ MVA is a measure of what is referred to in engineering terms as "apparent power." MW is a measure of what is referred to in engineering terms as "real power." The two measures are not exactly the same and differ by something called "power factor." MVA typically is greater than MW by about 5-10%. Because the two measures are reasonably close, Staff proposes that for convenience and simplicity, the computed \$65,734 per MVA amount be applied on a per MW basis instead.

1. The amount of the allowance should be equal to \$65,734 per MW times the number of MW being added by the customer.
2. An allowance should only be provided when the new customer requires new transmission and/or substation facilities be added or upgraded.
3. The total amount of the allowance should not exceed the total cost of the new facilities including materials, labor, vehicles, and overhead.

Although Staff's proposal retains some elements of past revenue-based approaches, Staff believes that an allowance that increases with the size of the customer's demand is appropriate in order to achieve fairness. Staff believes it is fair that a customer whose facilities cost 20 times that of a much smaller customer, and who may generate 20 times the annual revenue, be entitled to a proportionately larger allowance. Furthermore, such an approach is consistent with the industrial line extension policies of both Avista and PacifiCorp, whose allowances increase with the size of the customer.

Minimizing Cost Risk to Other Idaho Power Customers

In Order No. 32848, the Commission 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. For example, if Idaho Power paid a large allowance, thereby making a large investment in new facilities, that investment could later become stranded if the customer goes out of business.

To address this concern, Staff proposes that the allowance amount be spread over five years. In the case of Glanbia, Staff's proposed allowance amount of \$1,248,946 would be credited in five equal annual installments of \$249,789. In order to realize the full amount of the allowance, Glanbia would have to maintain its operation for at least five years. If Glanbia's load at the end of the fifth year is less than what was assumed when the allowance amount was first calculated, then Staff proposes that Idaho Power be permitted to adjust the fifth year allowance credit based on the actual load served in year five.

Spreading the allowance over five years would ensure that Idaho Power receives at least some reasonable amount of revenue to contribute to the recovery of its investment. Moreover, if a new industrial customer successfully operates for at least five years, its established presence will help ensure its ongoing, long-term operation.

To be clear, Staff's proposal to spread the allowance over five years pertains only to Schedule 19 customers, not to any other customer class. Because one of the primary purposes of an allowance is to reduce the up-front costs of becoming a utility customer, any spreading out of an allowance over time defeats the purpose of the allowance. For large industrial customers, however, Staff believes the ability to pay up-front charges is less of an issue than for other types of customers and that protecting other customers by ensuring ongoing revenue is an overriding consideration.

STAFF RECOMMENDATIONS

Staff recommends that Idaho Power be ordered to grant an allowance to Glanbia in an amount of \$1,248,946 to be credited in five equal annual installments.

Staff further recommends that the Commission adopt a "standard terminal facilities unit allowance" method for determining allowances for other Schedule 19 customers as shown on Attachment A. The amount of the allowance should be based on costs associated with installation of a 30 MVA transformer, including materials, labor, vehicles, and overheads. The allowance amount should be computed and applied on a per MW basis to the number of MW being added by the customer.

In addition, Staff recommends the following for Schedule 19:

1. The current amount of the allowance should be equal to \$65,734 per MW times the number of MW being added by the customer.
2. An allowance should only be provided when the new customer requires new transmission and/or substation facilities be added or upgraded.
3. The total amount of the allowance should not exceed the total cost of the new facilities (including materials, labor, vehicles, and overhead).
4. The amount of the allowance should be recalculated annually following the same schedule used for line extension cost updates for Idaho Power's other customer classes.
5. Allowances should be credited to customers in five equal annual installments.
6. If a customer's load at the end of the fifth year is less than what was assumed when the allowance amount was first calculated, Idaho Power should be permitted to adjust the fifth year allowance credit based on the actual load served in year five.

Respectfully submitted this *22nd* day of August 2013.



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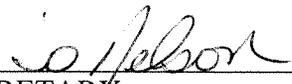
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF AUGUST 2013, SERVED THE FOREGOING **SUPPLEMENTAL COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-13-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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