DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

MYRNA WALTERS

TONYA CLARK

BILL EASTLAKE

DON HOWELL

STEPHANIE MILLER

RICK STERLING

DAVID SCOTT

WORKING FILE

FROM:BRAD PURDY

DATE:JANUARY 22, 1999

RE:CASE NO. IPC-E-95-18; ORDER NO. 26780—IDAHO POWER COMPANY’S PRICING OF LINE EXTENSIONS

In Order No. 26780 issued on February 6, 1997 in Case No. IPC-E-95-18, the Commission approved new tariff provisions relating to distribution line installments or alterations.  Included in that Order was the following requirement:

Although no party presented a proposal for allowing a developer to hire his own contractor or requiring the utility to solicit bids, several public witnesses testified that they thought this would be an efficient way to control costs.  We encourage the Company to consider these options.  We believe there may [be] merit in the suggestions of the witnesses.  We direct the Company to report to us within six months of the date of this Order its analysis of these concerns and the feasibility of allowing developers to hire independent contractors or requiring the Company to solicit bids for this type of construction. [Order No. 26780, pp. 13, 14.]

Idaho Power submitted a report on August 7, 1997 in compliance with the above requirement.

In the report, Idaho Power concluded the following:

... The Company does not recommend embarking upon any major change to its existing line extension tariff until the Company’s employees and the customers that utilize the tariff have become familiar with the requirements of the existing tariff.  The change to the new tariff has not been without some confusion and the need for interpretations.  It is critical that the existing line extension tariff be administered and evaluated with full understanding avoiding any confusion.  Initiating another major change in the tariff at this time would be very disruptive and very likely premature.

Finally, the Company is reluctant to propose definitive changes to its existing tariff without first obtaining input from interested parties such as the Staff, developers, and other customer groups.  This, of course, requires that the Company has sufficient data with which to discuss with those parties the effect of making changes to the existing tariff, and for that matter, what those changes might be.

...

The Company would recommend that a second report be submitted in November of 1998 concerning the feasibility of allowing developers to hire independent contractors or requiring the Company to solicit bids for this type of construction.  During that time period, after compilation of necessary data, it would be the intention of Idaho Power to consult with interested parties in formulating the second report.

Idaho Power submitted a second report on December 23, 1998, effectively concluding the reporting requirements of Order No. 26780.

Report Summary

Idaho Power’s existing line extension tariff (Rule H) does allow for customer-provided trenching and placement of conduit.  In addition, the Company has engaged in joint trenching activity with other utilities and interested developers, which Idaho Power claims, has reduced overall costs and has to a certain extent diminished the interest in the sole construction of an electric distribution system within a subdivision.  All other work, however, must be done by Idaho Power or by contractors hired by Idaho Power.

In the first report submitted in August, 1997, Idaho Power, in addition to requesting additional time to collect data, consult with interested parties, and further evaluate the recent changes made to the line extension tariff, discussed some of the considerations it believes would be necessary if developers were to construct or bid upon the construction of electrical distribution facilities.

The first consideration cited was the need for ongoing onsite inspections in order to insure that the facilities constructed by third parties are reliable and free from any defects that would cause an interruption in service.  The Company believes that the natural inclination of some contractors would be to avoid the cost of any “unnecessary” construction within the distribution system.  The Company states that the cost of inspection would have to be borne by the contractor desiring to perform the construction, or at least be factored into what the cost of construction would be.  Idaho Power anticipates that contractors will oppose additional inspection costs as being unnecessary.

The second consideration pointed out by Idaho Power was the need for bonding or similar financial assurance in the event of a failure of the newly constructed system.  The Company alleges that there is a natural conflict between an entity that constructs a system and the entity that will be required to operate and maintain that system.  Idaho Power states that it must be assured that it will not be responsible for making repairs or improvements to a system as a result of faulty construction that was not discovered during construction.  The Company has not attempted to determine the cost that would be incurred for such a bond or assurance by an entity contemplating construction of a distribution system.

Idaho Power also raises the concern that it should not be required to purchase a line extension for a cost that would be greater than what the utility would incur for constructing the line.  Accordingly, the amount would have to be less than the amount which the utility would pay to construct the facility, which ultimately leads to the same utility contribution as when the utility constructs the line extension and provides a refund as the line is utilized.

Finally, Idaho Power raises a concern about contractor qualifications.  The Company contends that conflicts would arise over requests to hire contractors not on Idaho Power’s approved list, and over the process by which a contractor could become qualified.  Idaho Power believes conflicts would arise if contractors were excluded from the list who, while performing the construction at a lower cost than other contractors, might do so at the expense of constructing a reliable system.

In the first report, Idaho Power pointed out that all of the issues set forth above would require considerable discussion with various parties and that those discussions could not take place until after Idaho Power had accurate information as to the costs for the construction of the distribution system under the current tariffs.  The Company recommended that a second report be submitted in November 1998.  In the interim, Idaho Power stated that they would compile necessary data and consult with interested parties in formulating the second report.

A second report was submitted by Idaho Power in December 1998.  The Company reported the results of their monitoring the financial effects of the new line extension tariff as to the shifting of costs from Company investment (rate base) to subdivision developers.  Their analysis shows that some of the non-refundable construction costs have been shifted from Idaho Power to subdividers/developers, but that their share of the costs, even in the most extreme circumstances, remains at less than half of the total cost of the project.  In many cases, subdividers are still receiving back all of their investment for electrical facilities, since all of the costs are available for refund to the subdivider/developer.  Idaho Power concludes that in light of their ability to receive back more than 50 percent of their investment, there has been no indication that the subdivider/developer is interested in performing the construction work.

Based on the analysis of the financial impact of the Company’s current tariff provisions on subdividers/developers, the Company does not believe it is necessary for the Company to significantly revise its line installation tariff nor is it practical to conduct further public investigations into the possible revision of the Company’s line extension tariff.

Staff Analysis

Staff believes that the reports submitted by Idaho Power, while they may strictly comply with Order No. 26780, fail to adequately address the issues we believe were intended by the Commission.  Staff believes the primary issue is that some means be devised to enable customers and Commission Staff to be assured that the costs of line extension work are fair and reasonable.  Allowing customers to hire contractors directly, or alternatively, requiring Idaho Power to solicit competitive bids were suggested during the course of the hearings held in this case.  Idaho Power has offered several reasons why it believes such provisions should not be implemented, and has not offered any suggestions of alternatives that may be able to provide the assurance of fairness which Staff believes the Commission and customers are seeking.

Idaho Power admits that it has been reluctant to discuss these issues with any other interested parties, fearing that misunderstandings and apprehensions would be generated if the Company institutes discussions regarding alternatives that the Company does not believe are warranted.  Staff is concerned, however, that those parties most concerned about and affected by these issues have been excluded from any discussions on how their concerns might be alleviated.  No opportunity has been given for developers, contractors, subdividers or Staff to rebut the reasons put forth by Idaho Power as to why customers should not be allowed to hire contractors directly or require Idaho Power to solicit competitive bids.  No opportunity has been given to investigate whether any other alternatives might exist if the options suggested previously cannot be implemented.

We are still faced with the same situation that existed before — namely that no method exists to provide customers some assurance that the line extension costs they are charged are fair and reasonable.  Currently, customers have no alternative but to have Idaho Power or contractors hired by them build line extensions, and to trust that the costs being charged are reasonable.  Staff is not in a much better position than customers in evaluating the reasonableness of line extension costs.  It is admittedly very difficult for Staff to assess line extension costs when there is little basis for comparing cost items, when the cost of items changes without notice, and when hundreds of items are routinely used in line extension construction jobs.  In addition, it is difficult to evaluate labor and equipment costs.

Idaho Power’s reports seem to imply that no problems exist.  However, Staff’s experience with customer complaints would indicate otherwise.  Line extension complaints are, by far, the most common complaint handled by Staff engineers.

Staff believes Idaho Power’s reports also miss the mark by focusing only on line extensions made to serve subdivisions.  Staff agrees that subdividers, while being required to make greater investments than under the previous tariff, still recover most of their investment back in the form of refunds.  However, line extensions made to serve individual customers, which comprise the majority of complaints received by Staff, have not been addressed by Idaho Power.  Customers still have no assurance that the amount they are required to pay to Idaho Power for line extensions is a fair price.

Staff Recommendations

Staff believes that further investigation is warranted in order to identify alternatives that may successfully provide customers the assurance of fair line extension costs.  Staff recommends that the Commission issue an Order initiating a case for the purpose of determining whether and how to modify the Company’s existing policies and practice pertaining to the pricing of line extensions.

Brad Purdy

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