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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER FOR AUTHORITY TO MODIFY ELECTRIC SERVICE REGULATION NO. 12 RELATED TO LINE EXTENSION ALLOWANCES.	)	**CASE NO. PAC-E-16-13** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Modified Procedure and Notice of Comment Deadline issued in Order No. 33656 on November 22, 2016, in Case No. PAC-E-16-13, submits the following comments.

BACKGROUND

On October 3, 2016, PacifiCorp dba Rocky Mountain Power filed an Application requesting that the Commission approve changes to the Company's Service Regulation No. 12, and its Service Schedule No. 300, both relating to line extensions. In summary, the Company seeks to change the calculation methodology on how residential allowances are formulated and obtain permission from the Commission to modify distribution facilities charges as well as adding new transmission facilities charges. The Company proposed a February 28, 2017 effective date.

By way of summary, a line extension is the extension of primary electric facilities to a customer's property, subdivision, or commercial building. The Company's line extension policy

is provided in the Company's Service Regulation No. 12, and its Service Schedule No. 300. The last major change to these protocols was in 1996. *See* Case No. UPL-E-96-04. The policies were modified in 2008 to change the refund process for residential customers. *See* Case No. PAC-E-08-06.

STAFF REVIEW

The Company proposes making extensive changes to its current line extension policy (Regulation No. 12) including revisions to customer allowances, refunds and facilities charges. In addition, the Company proposes revisions to Schedule No. 300 to reflect changes made to the Company's line extension policy. After a thorough review of the record, Staff developed the following analysis.

Allowances

The purpose of the line extension allowance is to provide a credit to offset some upfront distribution and terminal facility costs for new customers who require a line extension for service. The aim of the allowance is to provide adequate service without increasing rate base for other customers. An allowance that is roughly equal to the average cost of such facilities embedded in retail rates has two benefits: First, it prevents customers from paying for such facilities twice (once through upfront charges paid at the time of installation, and later through retail rates); and second, it prevents upward pressure on future rates.

Staff's analysis of the Company's proposed allowances involved the following:

1. A review of the Company's justification for its residential and non-residential line extension allowances;
2. A comparison of the Company's method for calculating the residential line extension allowance to the approach used by Staff in prior Commission cases;
3. An examination of the basis for allocating the allowance within a planned residential development;
4. A review of the Company's allowance approach for non-residential customers which moves from $90/kW of estimated load to an allowance based on 75% of the customer's annual generated revenue; and
5. An assessment of the Company's proposal to change from an allowance based on $/kW to $/kVA for non-residential customers.

After review and analysis, Staff believes the Company's proposed allowances for both new residential, and non-residential line extensions are reasonable. However, Staff did identify issues with the Company's methodology. Those issues and proposed changes are described in more detail below.

Residential Allowance

The current residential allowance uses a standard terminal services approach. It effectively provides a credit equal to the actual value of the transformer, meter, and service ("TMS") to new customers against the total cost of providing service. The advantage of this approach is simplicity. The allowance amount never needs to be updated because new customers are provided with an allowance based on the current actual cost of the TMS. In addition, it also provides a credit that compensates new customers for the cost of terminal facilities embedded in base retail rates, thus preventing new customers from paying for those services twice. However, the disadvantage of this approach is that it tends to provide an allowance which may be greater than the cost of TMS facilities embedded in current base rates. This is because facilities embedded in rates are generally less at the time they were determined during the last rate case due to depreciation and inflation. Having an allowance that is greater than embedded cost can put upward pressure on base rates. This can create the potential for subsidies that make existing customers pay for new customer growth.

The Company proposes to move away from TMS, and shift to a standard residential allowance of $1,550 for line extensions. Within the allowance for residential planned developments, $550 would be attributed to the service and meter, while the remaining $1,000 would be reserved to offset costs for the primary distribution, secondary distribution, and transformer components.

According to the Company, the method used to calculate the allowances "are designed to be revenue neutral." Stewart Direct at 2. Through discovery, the Company explained "revenue neutral" in the context of its method of calculating the proposed allowances.

> Line extension allowances are capital investments thus are investments in rate base. Changes in allowances change the growth in rate base. If rate base grows faster than the revenue necessary to support the growth in rate base, then the long term impact is an increase in rates. The proposed allowances are targeted to be 'revenue neutral', meaning the growth in rate base due to the allowance comes with adequate new customer revenue so as not to have an impact on rates.

See Response to IPUC Data Request 15. The Company calculated the $1,550 allowance by averaging: (1) the amount of investment supported by the distribution revenue requirement collected from a typical residential customer ($1,561, "top-down approach"), and (2) the amount tied to the gross plant investment for distribution and terminal facilities attributed to a typical residential customer ($1,523, "bottom-up approach"). These approaches are illustrated in Company Exhibit No. 4.

Staff agrees with the Company's goal of developing allowances that are "revenue neutral," and believes that any method that approximates the embedded cost of residential distribution and TMS facilities in base rates will meet this intent. Staff reviewed both of the Company's methods supporting the residential allowance and has concluded that the Company's method deriving the allowance amount meets the "revenue neutral" criteria.

Staff believes the Company's top-down approach may over-estimate allowances. By identifying the non-distribution revenue requirement and effectively assuming the remaining balance is attributable to residential distribution and TMS, the Company has increased the likelihood that what is left is larger than what is actually embedded in base rates for these facilities. Staff also questions the Company's bottom-up approach because it uses undepreciated gross plant investment to approximate the embedded cost of residential distribution and TMS facilities in base rates. Staff believes it would be more appropriate to determine a revenue requirement using depreciated net plant investment to calculate return on investment, annual depreciation of the investment, and other capital related costs associated with residential distribution and TMS installations (grossed up for taxes). However, because method 1 overestimates the allowance, and method 2 underestimates the allowance, Staff believes the proposed average of the two methods is reasonable.

The embedded cost of line extension facilities in base rates is likely to change with every general rate case. To maintain a reasonable allowance, going forward Staff recommends the Company update its allowance amount after every general rate case. Staff also recommends that the Company validate the allowance amount by directly calculating the embedded revenue requirement for residential distribution and TMS authorized by the Commission for recovery in base rates.

Non-Residential Allowance

The current allowance for a non-residential customers is calculated on a dollars per kilowatt (kW) basis. A new customer requesting a line extension will receive an allowance by multiplying its estimated demand load (kW) by the allowance ratio ($/kW).[1] This can create inequities because the amount of revenue the Company must recoup for the cost of line extension facilities for individual customers varies widely and is not solely determined on the basis of demand, but is also determined by energy use. The Company is proposing to change the form of the allowance to account for revenue earned from energy use as well as demand using an investment-to-revenue ratio to determine each customer's allowance. This ratio, when multiplied by the annual estimated revenue earned from each customer (based on estimated energy use and demand), is intended to provide an allowance amount roughly equal to the embedded cost of non-residential distribution and TMS facilities. See the example below:

Non-Residential Allowance		Notes
Investment Supported by Revenue	$3,903	Method 1 - Top-down-approach
Line Extension Related Distribution Plant	$3,168	Method 2 - Bottom-up-approach
Average Supported by Base Rates	$3,536	Average from Method 1 and 2
Average Annual Revenue per Customer	$4,725	
Investment-to-Revenue Ratio	0.75	$3,536 ÷ $4,725 (Calculated 9 Months)
Example Customer Allowance		
Estimated Annual Revenue	$23,448	Schedule 23 - Estimated 14% Load Factor with 20,800 kWh monthly usage)
Proposed Allowance	$17,586	$23,448 × 0.75
Allowance Using Current Method	$18,000	

The basis for the proposed non-residential allowance begins with the same approach used to calculate the allowance amount for residential customers. In the case for non-residential customers, the Company calculated a $3,536 allowance amount by averaging: (1) the amount of

[1] Within the non-residential allowance, the estimated load changes from a measurement of $/kW to $/kVA which better accounts for the actual sizing of the service required by the customer. Overall, this methodology better represents the variety of non-residential customers served by the Company.

an investment supported by the distribution revenue requirement ($3,903, "top-down approach"), and (2) the amount tied to the gross plant investment for distribution and terminal facilities ($3,168, "bottom-up approach"). The resulting value of $3,536 is intended to represent the investment for distribution and terminal facilities an average non-residential customer could support through payment of base rates. The Company further calculated a 0.75 investment-to-revenue ratio by dividing $3,536 by $4,725, which is the average amount of annual revenue the Company receives for a non-residential customer. This approach is illustrated in Company Exhibit No. 4. This ratio is equivalent to nine months of estimated monthly revenue that the Company should earn from each customer through base rates. This supports the Company's approach to the non-residential allowance based on estimated revenue.

Staff questions the Company's method of calculating the non-residential allowance for the same reasons stated above for residential customers because the allowance was derived from an average over-estimation that can occur using the top-down approach, and an under-estimation that can occur using the bottom-up approach. Nonetheless, Staff believes the resulting $3,536 is reasonable. As with residential allowances, Staff recommends that the Company update non-residential customer's allowances after every general rate case.

Line Extension Facilities Charges

Facilities Charges are costs associated with the ownership, operation, and maintenance of facilities built to provide service. The Company determines Facilities Charges using a construction management system to develop a design for each job. For each line extension, a "Job Cost" is determined based on the specific design. After the "Job Cost" is determined, the Company deducts any improvements or other costs that are not a customer's responsibility to arrive at an "Adjusted Job Cost." Line Extension Allowances are then deducted from the "Adjusted Job Cost" to arrive at a "Customer Advance." In cases where the line extension allowance is not sufficient to cover the "Adjusted Job Cost," the remainder is the "Customer Advance." This advance, plus any amount owed as a refund to an existing customer, is used to calculate the Facilities Charge. Specifically, the monthly Facilities Charges using current values equals (the Allowance x 1.67%) plus (the Customer Advance x 0.67%). Facilities Charges are in addition to standard rate charges and are billed on a monthly basis.

For facilities installed at the Company's expense, facilities charge include return on capital, recovery of capital, income taxes, property taxes, other taxes, customer accounts and

services, as well as operation, maintenance, administrative, and general ("OMAG") expenses. For facilities installed at the customer's expense, the Facilities Charge includes property taxes, other taxes, OMAG, customer accounts and services, and a capital replacement annuity.

The Company proposes to lower line extension distribution Facilities Charges, and add transmission line extension Facilities Charges. Currently, the Company's Facilities Charges do not differentiate between distribution and transmission. The Company states that "there is a significant difference between the facilities charges for distribution voltage facilities and transmission voltage facilities." Company Exhibit 1 at 1. Staff believes the Company's approach is reasonable because it more accurately recovers operation and maintenance costs for different types of facilities. Table 1 shows current and proposed facility charges as a percentage of installed facilities.

TABLE 1

	Current	Proposed (Distribution)[2]	Proposed (Transmission)[3]
Facilities Installed at Customer's Expense	0.67%	0.60%	0.20%
Facilities Installed at Company's Expense	1.67%	1.30%	0.90%

Staff examined the Company's supporting information, verified calculations, and determined that the proposed Facilities Charge rates are accurate and reasonable. Staff recommends that the Commission approve the Company's proposed Facilities Charges, including the addition of transmission facilities charges. Additionally, Staff suggests that any future changes to facilities charges be reviewed and approved by the Commission.

Refunds

Definitions and Policy Explanations in Tariff

Throughout Regulation No. 12, the Company uses the terms "applicant," "additional applicant," "shared facilities," and "total refundable advance" to describe how the Company will apply this regulation. Staff believes that defining these terms within the tariff is essential to understanding the Company's intent.

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[2] Distribution applies to less than 46,000 volts.

[3] Transmission applies to 46,000 volts and above.

It is Staff's understanding that an applicant is a person or entity that is requesting the Company to provide new service; an additional applicant is a person requesting the Company to provide service utilizing facilities constructed at the expense of an existing customer (original applicant); shared facilities are equipment used by both an applicant and an additional applicant; and a total refundable advance is an applicant's total construction cost of a line extension less the applicant's allowance, and any other costs that are not the responsibility of the applicant. It is important that the Company address these definitions and incorporate them into their tariff. Staff recommends that the Company define these terms and incorporate them into Section 1 of their proposed Regulation No. 12. Staff recommends that the Commission direct the Company to work directly with Staff to formulate acceptable definitions for these terms.

Waivers

As proposed, an original applicant for a line extension is eligible to receive a refund from up to four additional applicants who connect to the original line extension. The original applicant has the ability to waive any refund that is less than 20% of their fundable advance. The Company has informed Staff that it wishes to incorporate this practice into the tariff. *See* RMP Exhibit No. 1 at 1. Additionally, the Company proposes that if the additional applicant shares all of the facilities paid for by the original applicant, the original applicant must take the 20% refund or, "if they waive it, they will be eligible for one less refund in the future." Stewart Direct at 9. However, the Company's proposed tariff does not include this waiver penalty provision.

Staff supports the Company's proposal to allow applicant's to waive refunds. Staff also supports the Company's proposal to include a waiver penalty, but asks the Commission to order the Company to work directly with Staff to formulate acceptable language pertaining to waiver penalties prior to approving the tariff.

STAFF RECOMMENDATIONS

Staff recommends that:

1. The Commission approve the Company's Application;
2. The Company submit allowance updates (based on the methods used for this case) for review and approval by the Commission after every general rate case filing, and the Company provide a validation of the allowance amounts by directly calculating the

revenue requirement of line extensions embedded in base rates authorized by the next general rate case when new allowances are updated;

3. The Commission approve the Company's proposed Facilities Charges, including the addition of transmission facilities charges;
4. Any future changes to facilities charges be reviewed and approved by the Commission;
5. The Commission order the Company to work directly with Staff on final tariffs to define terminology, formulate language pertaining to waiver penalties for residential service; and revise language in Regulation No. 12 to better reflect the Company's testimony.

Respectfully submitted this 19th day of January 2017.

Brandon Karpen
Deputy Attorney General

Technical Staff: Johnathan Farley
Rick Keller
Kevin Keyt
Kathy Stockton

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF JANUARY 2017, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-16-13, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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