Office of the Secretary
Service Date
June 17, 2021

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER AUTHORIZING THE DEFERRAL OF INCREMENTAL WILDFIRE MITIGATION AND INSURANCE COSTS	)	**CASE NO. IPC-E-21-02** **ORDER NO. 35077**

On January 22, 2021, Idaho Power Company ("Company") applied for an accounting order authorizing it to defer Idaho's jurisdictional share of incremental costs associated with its wildfire mitigation and insurance expenses. The Application includes a comprehensive overview of the Company's efforts to assess wildfire risk, discussion of necessary actions and measures to mitigate wildfire risk, and identification and examination of incremental operations and maintenance expenses associated with implementing and completing wildfire mitigation efforts ("Wildfire Plan").[1] The Company requested its Application be processed by Modified Procedure.

On February 22, 2021, the Commission issued a Notice of Application and Notice of Modified Procedure establishing public comment and Company reply deadlines. Eight public comments were received in addition to Staff's comments. The Company filed a reply.

Having reviewed the record, the Commission issues this Order authorizing the Company to defer its Idaho jurisdictional incremental expenses associated with its wildfire mitigation and insurance costs.

THE APPLICATION

The Company proposed to shift its approach to vegetation management in recognition that climate, weather, urban-wildland encroachment, and vegetation growth are all expected to continue changing.

The Wildfire Plan uses the Fire Potential Index ("FPI") to support operational decision making to reduce wildfire threats and risks.[2] During fire season, the FPI will be calculated and issued each weekday to help Company personnel in planning and preparation.

[1] The Company's Application includes a copy of the 2021 Wildfire Mitigation Plan.
[2] The FPI produces a score from 1-16. Scores of 1-11 are green "lower fire potential;" scores of 12-14 are yellow "elevated fire potential;" and scores of 15 or 16 are red "highest fire potential."

The Company's wildfire mitigation strategy includes internal procedural measures to prevent accidental ignition and spread of wildfires. The Wildfire Plan includes operational mitigation practices for deploying temporary operating procedures for transmission lines during fire season; developing operational strategies for management of distribution lines during periods of elevated fire risks and during fire season; and evaluating a Company-specific approach to Public Safety Power Shutoffs ("PSPS") to determine the appropriateness and operation of PSPS as a tool.[3]

The Company's Wildfire Plan also includes management of certain conditions related to its transmission and distribution ("T&D") facilities. This will be accomplished through asset management programs and vegetation management. The asset management programs include visual inspections, line protection, asset replacement, and system hardening. Under the Wildfire Plan, the Company will continue to visually inspect its transmission lines using helicopter (aerial), on-the-ground, wood pole inspection treatment, cathodic protection and inspection, and thermal imaging inspection methods. The Company will also use unmanned aerial vehicles (drones) with high-definition cameras in certain situations. For distribution lines, the Company will use visual inspections, wood distribution pole inspection and treatment, and line equipment inspections.

A major component of the Company's proposal is to implement and achieve a consistent three-year vegetation management cycle across its entire service area. For FPI yellow or red zones (*see* fn n.2) the Company would employ enhanced vegetation management practices including annual patrols to identify immediate pruning needs, mid-cycle pruning during year two for fast growing species, increased incentives for customers who own trees that regenerate foliage faster than the three-year trimming cycle, clearing and sterilizing the soil around certain distribution poles, and performance of post-trimming audits on all pruned trees.

The Company has identified incremental operations and maintenance ("O&M") expenses related to mitigating wildfire risk as set forth in the Wildfire Plan. The expenses are grouped into these categories: (A) quantifying Wildland Fire Risk; (B) Situational Awareness; (C) Mitigation—Field personnel Practices; (D) Mitigation T&D; (E) Enhanced Vegetation Management; and (F) Communication. In the next five years, the Company estimates it will incur

[3] PSPS is generally defined as the proactive and planned de-energization of lines when extreme risk conditions are forecasted.

approximately $46.6 million in incremental O&M expenses to implement these measures. The Company seeks to defer Idaho's jurisdictional share of incremental expenses.[4]

The costs associated with enhanced vegetation management are the largest incremental wildfire mitigation expense. The Company estimates spending approximately $42.7 million on incremental vegetation management expenses over five years. The Company noted that its actual expenses for vegetation management have been increasing faster than authorized amounts in recent years. The Company notes several factors are pushing vegetation management costs upward including additional growth (vegetation and population), shortages of qualified labor,[5] and increased resource costs. The Company seeks to defer Idaho's jurisdictional share of incremental vegetation management costs above a base level of 2019 actual costs.

The Company proposes testing the three-year enhanced vegetation management cycle for four or five years to verify that a shorter cycle can be maintained, and expected benefits are realized.

The Company stated that its insurance premiums, had remained consistent until 2020 when there was a notable increase in the cost of its premiums partially due to a new "wildfire load."[6] The Company expects its insurance expenses to continue to increase in the coming years. The Company requested authority to defer its Idaho jurisdictional share of actual incremental costs of insurance premiums above 2019 levels. The Company noted that it could not accurately forecast increased insurance premiums beyond 2021.

The Company also identified capital expenses for system hardening. The Company will work to "harden" its infrastructure by replacing small conductor and associated hardware. For transmission lines 138 kilovolt and above, the Company may convert wood poles to steel. The Company requested authority to defer actual depreciation expenses associated with incremental capital investments made under the Wildfire Plan.

The Company will review and update its wildfire risk assessment biennially.

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[4] The Company proposes to continue to pay for baseline levels of O&M escalated annually for inflation out of its existing budget and does not seek deferral of those costs.

[5] The Company's Application cites two factors contributing to the shortages in labor: (1) special requirements to trim trees near power lines and equipment that require special certifications and training; and (2) increased demand for vegetation management services in the western US—including California where labor rates are higher.

[6] The wildfire load was $1 million and has been included by insurers who insure utilities that they deem operate in high-risk areas.

THE COMMENTS

Staff and eight members of the public filed timely comments. The Company replied.

1. Staff's Comments

Staff reviewed the Company's Wildfire Plan ultimately recommending Commission approval of the Company's Application to allow the deferral of prudently incurred incremental O&M costs, incremental insurance expenses, and depreciation expenses associated with wildfire mitigation. Staff's comments discuss the Wildfire Plan including elements of wildfire preparedness and prevention, vegetation management, and wildfire response and communication.

Staff's comments analyzed the forecasted cost to implement the Wildfire Plan and proposed accounting treatment. Staff noted the Company's cost forecast to implement and execute the Wildfire Plan included approximately $34.8 million for capital expenditures and approximately $69.8 million for O&M expenditures, insurance costs, and depreciation expense.

Staff discussed major drivers increasing the forecasted operating expenses in addition to implementing a new Wildfire Program. The Company anticipated insurance premiums would continue to increase along with the risk of wildfires in the region. Staff stated the exact insurance premium increases are uncertain, but agreed insurance is necessary to protect customers. Staff noted the Company asked to defer the Idaho's jurisdictional share of actual incremental insurance costs above 2019 levels. In its Application the Company estimated 2021 insurance costs based on current premiums through mid-year 2021 when renewals occur, and then applied an increase based on a broker-provided high-level estimate. The Company also included a new wildfire load of $1 million at mid-year 2021. For 2022-2025 the Company did not provide a forecast for its insurance premiums, instead using a flat annualized estimate for the incremental costs based on a full year of increased premiums.

Staff noted the Company asked for authorization to defer the Idaho jurisdictional share of actual incremental O&M expenses and depreciation expenses necessary to implement and carryout the wildfire mitigation measures. For vegetation management, the Company proposed to defer its Idaho jurisdictional share of incremental vegetation management expenses above the base level using 2019 actual costs adjusted annually for inflation. Staff stated the Company would track actual expenses and incremental wildfire-related capital expenditures incurred after the filing date of the Application to Federal Energy Regulatory Commission ("FERC") Account 182.3, of which the prudence would be determined in a future rate proceeding. The Company did not request a carrying charge on the deferral balance.

Staff supported the Company's efforts to reduce the financial effects of future wildfires using a deferral mechanism for its incremental O&M, insurance, and depreciation expenditures. Staff believed the Commission should have the opportunity to review any Wildfire Plan expenditures for prudency before they are recovered.

Staff expressed concerns about an open-ended deferral when it is uncertain when the Company will file its next general rate case. Staff stated the deferral balance for the Wildfire Plan will reach approximately $70 million after five years according to the Company's Application. Staff suggested limiting the deferral period to either five years or when rates go into effect following the Company's next general rate case, whichever is first. Staff stated this would provide an opportunity for the Commission to review expenses and determine prudency while protecting customers from a growing regulatory asset. Staff also believed the amortization period should also be determined in a future rate proceeding.

2. Public Comments

The Commission received six public comments all supporting the Company's efforts to address the effects of wildfire in Idaho.

Idaho Conservation League ("ICL") filed public comments recommending Commission approval of the Company's Application with slight modifications.[7] ICL called the Wildfire Plan "a good example in making proactive changes to prevent an incident instead of retroactively mitigating after the incident has occurred." ICL recommended the Company amend its Wildfire Plan to include more specific collaboration between land management agencies where the Company's infrastructure is located. ICL noted that all the land management agencies already have their own wildfire assessments and mitigation plans in place, but the Company's Wildfire Plan does not mention how it plans to coordinate with the agencies aside from its plan to concede if formal decisions for wildfire restrictions are issued by agencies.

ICL argued the Company should proactively collaborate in agency management planning processes. ICL suggested that participation with local, state, and federal land management agencies may enable the Company to leverage utility investments with other planned public spending to improve wildfire resiliency. ICL recommended the Company explore

[7] The Idaho Conservation League did not intervene in this case but filed public comments.

participating in the Shared Stewardship Advisory Group ("Group") under which the Forest Service and State of Idaho are working. ICL believed the Company may be able to coordinate its Wildfire Plan with various aspects of the Group's purpose. Additionally, ICL saw an opportunity for the Company to become involved in planning for forest management in national forests since the Company has rights-of-way with upcoming maintenance work planned. ICL also recommended the Company present its Wildfire Plan to planning bodies in each national forest, learn about the existing five-year plans, and develop a cooperative approach to wildfire mitigation with the appropriate land management agencies. ICL recommended the Idaho Forest Restoration Partnership for collaborative efforts.

ICL also recommended the Company coordinate with the Bureau of Land Management ("BLM") to see if there are any cheatgrass management or ecologically-sound fuel reduction projects planned in or around the Company's rights-of-way. ICL mentioned programs the BLM is implementing and suggested the Company may be able to work collaboratively with the BLM to address common issues in and around the Company's transmission rights-of-way. ICL recommended working with BLM and the Rural Fire Protection Association to collaborate and provide coordinated wildfire responses.

3. Company Reply

The Company replied noting Staff and public support for its Wildfire Plan and acknowledging ICL's suggestions. The Company stated that it "initiated agency discussions with Idaho's [BLM] Fire Management staff during development of the [Wildfire Plan]." The Company stated those meetings helped it gain an understanding of the BLM's priorities for fire protection, identify relevant datasets for planning, establish a rapport with the BLM's fire staff, and initiate discussion about potential future collaborative fire mitigation projects. The Company also stated it had met with several state level BLM personnel and continues to work with the BLM to identify outreach strategies to educate BLM staff and solicit feedback.

The Company stated that it joined the Idaho Wildfire Board ("Board"), a group of state, local, and federal agencies. The intent of the Board is to bring together different agencies and entities working on wildfire management in Idaho. The Company stated the Board had its first meeting in April 2021. The Company noted that it intends to leverage its participation to extend Wildfire Plan coordination with the Forest Service, Idaho Military Division, Federal Emergency Management Agency, Idaho Department of Lands, and BLM.

Regarding ICL's recommendation to explore joining the Group, the Company states it has engaged with the Group and will continue to follow its progress, even though the Group's mission exceeds the purpose of the Wildfire Plan.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-501, 61-502, and 61-503. The Commission is empowered to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential, discriminatory, or in violation of any provision of law, and to fix the same by order. *Idaho Code* §§ 61-502 and 61-503.

As asserted by the Company, the threat of wildfires across the west has been increasing and will continue to do so. Increased threat of wildfire coupled with more development in the wildland-urban interface, creates a significant threat to areas inhabited by humans. Whether a wildfire is started from utility equipment or by any other cause the potential consequences are extremely high. As demonstrated by recent western wildfires, the resulting loss of life and property damage, including damage to energy infrastructure and the disruption of power service can be catastrophic. It is, therefore, reasonable to target high-risk areas using the FPI criteria with increased focus on enhanced vegetation management. We acknowledge that, to mitigate the risk of the devastating consequences that have occurred in other states, some additional costs and expenses may be necessary. Idaho has unique forest management practices and, as such, the risks and benefits to Idaho customers will be independently evaluated. We encourage the Company to focus on fuel reduction and removal—to reduce the risk of combustible debris near its assets.

We appreciate the Company's proactive, "all of the above" approach to wildfire mitigation. We have reviewed the Company's Application and believe the proposed actions described will provide benefits to the Company's customers and Idaho. Limiting the potential impact that wildfire has on the Company's system and its customers provides benefits that are hard to quantify, but we find are important given the trajectory of wildfires and the associated potential liability.

We have reviewed the Company's forecast of incremental O&M expenses for wildfire mitigation during 2021-2025. The largest portion of this is attributed to incremental vegetation management expenses. We agree that the Company should operate its proposed three-year cycle of enhanced vegetation management activities for four to five years to verify the cycle can be beneficially maintained. As the Company increases its vegetation management activities, we find it reasonable for it to defer its Idaho jurisdictional share above its 2019 actual costs. We do however expect the Company to report to the Commission the results of its enhanced vegetation management activities explaining the actual costs and benefits of those activities as it begins its enhanced vegetation management program under the Wildfire Plan.

We agree with the Company that customers should benefit from adequate insurance coverage. Insurance protects the Company and its customers from unforeseen wildfire-related costs which have caused utility bankruptcy in recent years. While the increased insurance premiums, including the "wildfire load," represent additional costs; the alternative is not prudent or wise. We believe the Company's proactive investment will provide benefits to customers should the Company ever face significant wildfire liability. We find it reasonable to allow the Company to defer its Idaho jurisdictional share of incremental wildfire insurance costs above 2019 levels.

The Company requested authority to defer depreciation expenses for incremental capital investments related to wildfire mitigation. These capital investments will be used primarily for system hardening for the Company's transmission and distribution systems. We agree these capital investments are an integral part of the Company's Wildfire Plan. Without these capital investments the other components of the Wildfire Plan standing alone are less likely to provide the intended benefits to customers. We find it reasonable to allow the Company to defer its actual depreciation expense associated with incremental capital expenditures. The Company should record the capital investments in appropriate plant accounts as assets are placed in service.

The Company may defer actual incremental O&M expenses, incremental insurance expenses, and depreciation expenses for its capital expenditures related to the Wildfire Plan as discussed above. The Company shall record these deferrals in accordance with Code of Federal Regulation to FERC Account 182.3—Other Regulatory Assets. We agree with Staff that the deferral period for the Wildfire Plan expenses should have limits. We find that the deferral period should end after five years or when rates from the Company's next general rate case go into effect, whichever is first. This will protect customers from a regulatory liability that could otherwise grow perpetually and will give the Commission a chance to review deferred expenses for prudency and examine the actual costs and benefits of the Wildfire Plan.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved. The Company may defer its Idaho jurisdictional incremental O&M expenses, incremental insurance expenses, and depreciation expenses for its capital expenditures related to the Wildfire Plan for recovery in a future rate proceeding.

IT IS FURTHER ORDERED that the Company shall defer these expenses into FERC Account 182.3—Other Regulatory Assets.

IT IS FURTHER ORDERED that the deferral period authorized by this Order shall last for five years, or until rates go into effect after its next general rate case, whichever is first.

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 about 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 17th day of June 2021.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Kristine Raper

KRISTINE RAPER, COMMISSIONER

Eric Anderson

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki

Jan Noriyuki
Commission Secretary

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