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Attorneys for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF IDAHO POWER )**  
**COMPANY'S PETITION FOR APPROVAL )** **CASE NO. IPC-E-21-25**  
**OF A CUSTOMER SURCHARGE AND )**  
**MODIFIED LINE ROUTE )**  
**CONFIGURATION FOR CONSTRUCTION )** **COMMENTS OF THE**  
**OF A NEW 138 kV TRANSMISSION LINE IN )** **COMMISSION STAFF**  
**THE WOOD RIVER VALLEY )**  
**)**

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**STAFF OF** the Idaho Public Utilities Commission (“Staff”), by and through its Attorney of record, John R. Hammond, Jr., Deputy Attorney General, submits the following comments.

**BACKGROUND**

On August 6, 2021, Idaho Power Company (“Company”) petitioned the Commission for an order: 1) approving a proposed surcharge for the Company’s customers in Blaine County to pay for additional undergrounding of a previously approved transmission line; 2) approving the modifications to the line route (“CPCN Route”) previously approved in the Certificate of Public

Convenience and Necessity (“CPCN”) granted to the Company in Order No. 33872;<sup>1</sup> and (3) finding that the Commission’s findings and directives from the CPCN, Order No. 33872, as well as the order requested in this case, carries with it the express authority over any action or order of other government agencies or local governments that conflict with such orders of the Commission pursuant to *Idaho Code* § 67-6528.

In support of the Petition, the Company filed the direct testimony of Ryan N. Adelman, Vice President of Power Supply, regarding the Company’s local permitting activities with Blaine County, Idaho, as well as the proposed line route and configuration, and the direct testimony of Timothy E. Tatum, Vice President of Regulatory Affairs, regarding the proposed surcharge amounts and calculation method.

The Company asserts northern Blaine County (“North County” or “North Valley”), including the cities of Ketchum and Sun Valley, is currently served by a single power source: the Company’s Wood River-Elkhorn-Ketchum 138 kilovolt (“kV”) transmission line (“Existing Transmission Line”). The Company further alleges that the previously approved construction of a new 138 kV transmission line and related facilities, which will provide redundant service from the Wood River substation near Hailey into the Ketchum substation (“New Transmission Line”), would add an important second power source to the North County.

In its Petition, the Company represents the proposed modified line route and build configuration for the New Transmission Line, along with the proposed surcharge mechanism results from more than a decade of planning and collaboration with the residents of Blaine County. The Company asserts that approval of the Petition will serve the public interest and support the Company’s efforts to provide safe, reliable, and fair-priced electric service to its customers.

## STAFF ANALYSIS

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<sup>1</sup> In granting the Company’s Application for a CPCN for the Wood River Valley line route in Case No. IPC-E-16-28 the Commission found:

Given the record before us, we find that redundancy is needed to provide adequate and reliable service to the North Valley and promote public health, safety, and convenience, and thus grant the Company’s requested CPCN authorizing construction of a second transmission line. Further, we approve the Company’s requested route of overhead transmission from the Wood River substation to the transition point near Elkhorn Road, then underground transmission to the Ketchum substation.

Order No. 33872 at 15.

Staff reviewed the Company's Petition to modify the line route previously approved in the CPCN granted by Order No. 33872, and the filed testimony and exhibits of Company employees Tim E. Tatum and Ryan N. Adelman. Additionally, Staff reviewed the Company's proposed surcharge and tariff schedule for Company customers in Blaine County and the Company's responses to Production Requests.

After a thorough review of all information available, Staff is generally supportive of the Company's Petition. Staff believes that the Company's collaborative work with Blaine County Planning and Zoning and the Blaine County Board of County Commissioners achieved a reasonable line configuration and project financing alternative. Implementation of a Blaine County surcharge provides the least consequential impact on the general body of rate payers and Staff recommends that the Commission approve it.

## **Line Modifications**

### Transmission and Distribution Line Configuration Changes

In Order No. 33872, Case No. IPC-E-16-28, the Company was granted a CPCN for service (New Transmission Line) from the Wood River substation into the Ketchum substation. The line configuration granted in the CPCN was overhead transmission from the Wood River substation to a transition point near Elkhorn Road, then underground transmission to the Ketchum substation. *See* Order No. 33872 at 15

After issuance of the CPCN, the Company worked with Blaine County Planning and Zoning to obtain a conditional use permit ("CUP"). The Company and the Blaine County Board of County Commissioners agreed to modifications of the CPCN Route approved in Case No. IPC-E-16-28. The proposed modifications requested by the Blaine County Commission, known as the Owl Rock Road Route, would extend burial of the transmission line further south a distance of 1.4 miles, from Elkhorn Road to near Owl Rock Road. Additionally, instead of placing the 7.5 miles of existing distribution lines along Buttercup Road and Highway 75 as an under-build on the new overhead transmission line, distribution lines are proposed to be buried under the Owl Rock Road Route. The Company provided testimony supporting the modified route:

Under the Final CUP, the Blaine County Commission modified the “all underground” condition for the Transmission Line included in the County Board’s initial June 4, 2019, CUP grant, replacing that condition with the partial underground condition set forth in the Final CUP for the Owl Rock Road Route.

*Adelman Direct* at 16.

### Construction Costs

Staff believes the current cost estimates for the CPCN and the modified CPCN Route along Owl Rock Road to be acceptable for purposes of determining the surcharge rates proposed in this case. Since actual construction costs and the final construction cost estimates for the CPCN Route will ultimately determine the amount recovered from Blaine County customers for the incremental undergrounding, Staff recommends that the Company submit the final estimate for the modified CPCN Route and the final project cost to the Commission no more than 6 months after the project has been completed. This will allow the Commission to determine the operational prudence of the Company’s implementation of the project and to determine if the surcharge rate needs to be adjusted.

The Company is seeking authorization for a surcharge for Company customers in Blaine County to fund incremental undergrounding of both transmission and distribution infrastructure not included in the specific route configuration approved through the CPCN authorized in Order No. 33872. The proposed surcharge is designed to recover the incremental cost of the additional undergrounding by calculating the difference between the actual total project cost to construct the Owl Rock Road Route and a cost estimate for the original CPCN Route configuration that will be developed when the Company receives final pre-construction pricing information close to the time construction begins.

Since neither the final construction estimate of the CPCN Route nor the actual construction cost of the Owl Rock Road Route is available at this time, the Company plans to charge its customers in Blaine County using the proposed surcharge based on the most recent estimates of both route configurations. The Company’s most recent estimate of \$35.1 million for the CPCN Route as stated in the Company’s Petition with updated labor and material costs was completed in August of 2019. The Company estimated the total cost of \$44.9 million for the Owl Rock Road Route resulting in an incremental cost of undergrounding of \$9.8 million.

As described in Timothy E. Tatum’s Direct Testimony the Company proposes to continue the surcharge approved in this case until the actual cost is fully recovered; however, the Company

does not preclude that the length of the term or the surcharge rate itself may need to be adjusted depending on future circumstances. *Tatum* at pp. 22-24. In addition, because the surcharge rates are proposed to remain in effect until the actual incremental cost is fully recovered, the accuracy of the current cost estimates used to determine the rates are not critical. Nevertheless, Staff did review the cost estimates for both routes submitted in this case and believes them to be reasonable.

The accuracy of the final construction cost estimate for the CPCN Route and the actual project cost should be fully scrutinized soon after construction has been completed. The full recovery of incremental construction costs will be determined by these amounts and will form the basis for how much will ultimately be collected from Blaine County customers. A full review of these amounts will ensure that only prudently incurred construction costs are included for recovery and that these costs are only recovered from Blaine County customers.

#### Ratepayer Impact of Incremental Costs not Included in Surcharge

Staff believes that the general body of ratepayers will likely pay for some incremental costs associated with the additional undergrounding not accounted for in the surcharge. There are two sets of cost not included in the surcharge: (1) the incremental lifecycle cost associated with the shorter useful life of underground transmission lines replacing the section of overhead transmission lines in the CPCN route; and (2) higher operation and maintenance (“O&M”) costs for underground lines compared to overhead lines. According to Staff’s analysis, these incremental costs not accounted for in the surcharge will only have about a \$1.28 total impact on a per customer basis (2021 dollars) for customers outside of Blaine County. Because of this small impact and difficulty in estimating these additional costs with any certainty, Staff does not recommend any adjustments in this case. However, if similar requests for undergrounding are made in the future are not needed for safety or reliability, Staff recommends that these costs be considered, and if significant, be included for recovery from municipalities or counties prior to negotiating alternative recovery mechanisms.

Staff first raised the issue of higher lifecycle cost and O&M cost of underground transmission lines compared to overhead transmission lines in Case No. IPC-E-16-28. *See Direct Testimony of Michael Morrison* at pp. 23-24. To properly account for lifecycle impact, it is necessary to compare the total cost, including O&M cost, of both overhead (CPCN Route) and

underground (Owl Rock Road Route) alternatives using the longest useful life between the two alternatives for both transmission and distribution. The Company provided estimates for the useful life of underground and overhead transmission and distribution lines and annual O&M cost of both types of transmission but did not provide the O&M costs for distribution lines in the Company's Supplemental Response to Staff Production Request No. 3.

Regarding transmission, the useful life of the overhead alternative (CPCN Route) is estimated to be about 70 years and about 35 years for the underground alternative (Owl Rock Road Route). To perform a comparison that is equivalent for the two transmission alternatives, the underground transmission alternative would need to add the cost of replacement halfway through the 70-year comparison period. The Company estimated that it would cost approximately \$2.24 million (2019 dollars) to replace the underground conductor for the incremental underground transmission. The Company also determined the annual difference in O&M cost to be about \$13,434 (2016 dollars) between underground and overhead transmission.

The useful lives of overhead and underground distribution are both about 50 years based on the Settlement in the Company's latest Depreciation Case (Case No. IPC-E-21-18); thus, lifecycle cost for the two distribution alternatives strictly due to different useful lives is not a factor. However, any difference in O&M cost over the useful life should be considered. Since the Company did not provide estimated O&M cost for the two distribution alternatives, Staff does not have a basis whether or not they are material to the analysis as the Company claims.

On a net present value basis, the cost amount shifted to the general body of ratepayers is about \$768,000.<sup>2</sup> Given the approximately 600,000 customers in the Company's service territory, each customer will cover about \$1.28 in total.

### **Final Conditional Use Permit**

The Company filed for CUP approval of the Owl Rock Road Route funded by a surcharge by the Blaine County Board of County Commissioners on December 22, 2020. The Company's petition was approved by the Blaine County Board of County Commissioners on

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<sup>2</sup> Calculation is based on a 70-year evaluation period (2026-2095), replacement in 2060, an escalation rate of 2.3%, and a discount rate of 7.12%.

February 9, 2021. On March 15, 2021, the Blaine County Board of County Commissioners issued its Findings of Fact, Conclusions of Law and Decision (“Final CUP”).<sup>3</sup>

There are two specific conditions within the Final CUP where the Commission is referenced.

Condition No. 16 of the Final CUP states:

Idaho Power Company shall address the need for a clause in any financing order by the Idaho Public Utilities Commission to allow for prepayment of any Blaine County only project costs or surcharges towards the additional costs of the modified project, as well as a procedure for doing so.

*Adelman Direct*, Exhibit No. 2 at 13.

Condition No. 16 was addressed by the Company in its Petition:

The actual incremental cost will represent the “principal amount” to be repaid through the surcharge assessments. Blaine County will have the option to prepay all or part of the outstanding surcharge principal amount at any time. In the case of partial prepayments, the monthly surcharge assessments will remain the same, but the allocation between principal and interest of the surcharge payments will be adjusted to reflect Blaine County’s principal prepayment, with a corresponding reduction in the number of surcharge payments remaining under the surcharge repayment schedule.

*Petition* at 23.

Condition No. 17 of the Final CUP states:

Idaho Power Company shall address with the P.U.C. the need to provide indigent residents with financial assistance to meet the additional cost of the surcharge.

*Adelman Direct*, Exhibit No. 2 at 13.

Staff believes condition No. 17 of the Final CUP will be satisfied by Blaine County working with the Company to utilize public funding available within Blaine County. Additionally, Blaine County residents have access to energy assistance funding through Low-Income Home Energy Assistance Program (“LIHEAP”), Company programs and resources,<sup>4</sup> South Central Community Action Partnership, and the Salvation Army. The Commission does

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<sup>3</sup>A copy of the Final CUP can be found in *Adelman Direct* Testimony, Exhibit No. 2

<sup>4</sup> Idaho Power Resources: Payment Arrangements, Winter Protection Program, Winter Pay Program, Project Share, Energy Efficiency Programs <https://www.idahopower.com/accounts-service/make-payment/help-paying-bill/idaho-assistance/>

not have or authority to distribute any funds to utility customers. If customers contact the Commission about financial assistance, Staff supplies information about agencies in their area that may be a potential source of funds.

### **Surcharge**

As discussed in the Construction Costs section above, the current estimates will be used to determine the amount of the surcharge. To fund the proposed surcharge, the Company estimates monthly fixed charges of \$3.42 for Residential and Small General Service customers in Blaine County and \$14.36 for Non-Residential (large commercial, industrial, and irrigation) customers in Blaine County. Staff recommends that the Company clearly label the surcharge as its own line item in billing statements for Blaine County customers. The Company provided, as an attachment to its Petition, the proposed Schedule 96, Blaine County Surcharge to Fund the Undergrounding of Certain Facilities (“Schedule 96”), which provides the surcharge amounts for Blaine County customers on each applicable retail tariff schedule. The proposed surcharge is projected to provide sufficient funding to fully recover the estimated \$9.8 million in incremental costs of the additional undergrounding for the Owl Rock Road Route.

### Surcharge Calculation

The proposed surcharge consists of three components which are capital costs, financing costs, and an annual administrative fee. Capital costs are the estimated \$9.8 million in incremental costs of the additional undergrounding for the Owl Rock Road Route. Financing costs are established at the Company’s after-tax authorized rate of return, currently at 9.59 percent as approved the most recent rate case (Case No. IPC-E-11-08). The financing costs should be updated whenever the Commission approves a new rate of return for the Company. The administrative fee is an annual fee of \$35,000 to offset the incremental administrative costs.

The Company estimated that a surcharge based on 3 percent of billed revenue in Blaine County would collect approximately \$1.1 million on a levelized basis, annually at current Blaine County customer counts. The surcharge revenue is forecasted for a 20-year collection period, is expected to fully recover the estimated \$9.8 million of incremental undergrounding costs, including financing costs, for the Owl Rock Road Route.



Because the Company will be managing the New Transmission Line project on a total project basis, as it does with other large projects, the Company plans to calculate the actual cost of the additional Owl Rock Road Route burials as the difference between (1) the total estimated project cost for the CPCN Route and (2) the total actual project cost of the Owl Rock Road Route. The difference between these two total project costs would represent the incremental cost of the Owl Rock Road Route to be financed through the surcharge.

#### Surcharge Duration

When the new facilities are energized and placed into service (used and useful), the surcharge will be applied to the Company's Blaine County customer's starting on the first bill date of the following month. The surcharge is expected to be in effect for a twenty-year period and will continue until the incremental costs are paid in full. If the surcharge results in an over-collected balance, funds will be returned to the Company's Blaine County customers. Blaine County will have the option to prepay all or part of the outstanding surcharge principal, amount at any time. *Tatum Direct* at p. 26.

#### **Accounting Treatment**

The Company requested an Accounting Order authorizing the depreciation of the incremental capital costs over the 20-year surcharge period. Without an Accounting Order, there would be a mismatch between the timing of surcharge revenues and the related depreciation expense. The currently approved depreciation rates for these assets is based on depreciable lives averaging more than 50 years.

Staff recommends the Commission authorize the Company to accelerate the depreciation of the incremental assets to match the 20-year surcharge. The Company has calculated the rate base and revenue requirement impacts of the incremental costs using the proposed depreciation method to ensure the surcharge revenue fully covers the revenue requirement so that the broader retail customer base is not negatively impacted.

#### Reporting

The Company proposes to provide annual updates to Blaine County along with a projection based on current information, such as the current allowed return in the Idaho

jurisdiction and current income tax rates. Following implementation of the surcharge the Company will provide annual reports to the Commission. These reports when sent to the Commission will be accompanied with supporting workpapers.

### **Tariff Schedule**

The Company proposed a new tariff titled Schedule 96, Blaine County Surcharge to Fund the Undergrounding of Certain Facilities. This schedule provides surcharge amounts applicable on each retail tariff schedule<sup>5</sup> for the Company's Blaine County customers.

The charges contained within Schedule 96 will be reviewed, at a minimum, with each general rate case. Such review will ensure the surcharge amounts properly reflect Blaine County customer growth, the then-authorized rates of return, and other factors that may impact the level and duration of collection.

### **CUSTOMER NOTIFICATION AND PUBLIC COMMENTS**

The Company's customer notice was included with its Application. Staff reviewed the document and determined that it meets the requirements of Rule 125 of the Commission's Rules of Procedure (IDAPA 31.01.01). The notice (postcard) was mailed on August 19, 2021, to all relevant customers who would be impacted by the surcharge, providing a reasonable opportunity to file comments with the Commission by the December 22, 2021, comment deadline. Due to significant public interest the Commission continues to see public comments submitted online through the Idaho Public Utilities Commission website and through email and written mail to the Commission Secretary. As of December 21, 2021, 51 comments had been filed in opposition to the proposed surcharge and 5 comments in favor. A few customers submitted multiple comments, two customers identified themselves as being on a fixed income, and three customers identified themselves as owning farms. Most of the customers in opposition to the surcharge made similar comments regarding why they opposed the surcharge. Additionally, some customers voiced opposition to a redundant transmission line, and their displeasure with the Blaine County Commissioners.

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<sup>5</sup> Applicable to the Company's Blaine County customers served on schedules 1,3,5,6,7,8,9S,9P,9T,19S,19P,19T, and 24.

Staff has reviewed all comments and provides the following summary of submitted comments:

Opposition to surcharge:

- The surcharge should not be placed on ratepayers that live outside of the area where these lines are located;
- The homeowners and businesses that don't want to see the powerline above ground should bear the cost of burying the line;
- Requiring all of the Company's customers in Blaine County to pay for a line that only impacts a very small geographic area sets a terrible precedence; and
- The benefit from this project is minimal and only goes to a very small number of residents.

Undergrounding:

- Entire Line should be put underground not just a small section;
- Overhead lines are easier to maintain and most lines in South Valley are overhead;
- Line being buried is not one of safety or reliability but is a matter of superficial aesthetics; and
- Above ground portion of the new line already blemishes the scenic corridor in the Wood River Valley. Why pay a huge cost to bury such a small portion of the line.

Blaine County Commissioners:

- Takes issue with Blaine County Commissioners wanting the entire county to pay for the buried line and not allowing a vote by the entire county;
- The Blaine County Commissioners have overstepped their authority. Do the Blaine County Commissioners have the authority to enter in an agreement with the Company that has an impact on individual power bills; and
- Cost should be paid with a local bond, tax, or Local Improvement District initiative.

Farmers and Irrigators:

- Surcharge is discriminatory towards those business owners in agriculture.
- Multiple meters will create a high monthly surcharge for irrigators. Most farmers and ranchers keep their pumps connected all year to save the expense of a connect/disconnect fee and the extra wasted resources involved in connecting and disconnecting; and
- Irrigators with multiple pumps and meters not located In the Big Wood River Valley will be forced to pay excessive costs.

In favor of surcharge:

- A backup power connection is needed as a safety measure especially in extreme weather situations;
- Everyone benefits from a more secure and reliable power grid;
- Safety of residents, homes, business, and schools in the Ketchum/Sun Valley/Hailey area is important; and
- Please consider undergrounding all lines. Benefit is aesthetics and reduction in liability exposure.


**STAFF RECOMMENDATIONS**

Staff recommends that the Commission:

1. Approve the Company's proposed CPCN modifications (Owl Rock Road Route) as described in its Petition.
2. Approve the Company's proposed surcharge and Schedule 96 as filed and order the Company to file, upon project completion, a revised Schedule 96 if cost changes require Schedule 96 to be modified.
3. Approve the Company's request for an Accounting Order authorizing the accelerated depreciation of the incremental capital costs to match the 20-year surcharge period.
4. Order the Company to clearly label the surcharge as its own line item in billing statements for its Blaine County customers.
5. Order the Company to provide the estimated cost of the Owl Rock Road Route when it receives final pre-construction pricing information for the project.

6. Order the Company to file, no more than 6 months after the project has been completed, a final determination of the original CPCN route cost and the incremental project cost for the Owl Rock Road Route for review and approval along with any necessary changes to the proposed surcharge if any.

Respectfully submitted this *21<sup>st</sup>* day of December 2021.



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John R. Hammond, Jr.  
Deputy Attorney General

Technical Staff: Kevin Keyt  
Joe Terry  
Curtis Thaden

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21<sup>ST</sup> DAY OF DECEMBER 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-21-25, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE