



**IDAHO
PUBLIC
UTILITIES
COMMISSION**



2017

Annual Report

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Idaho Public Utilities Commission

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This report can be accessed online from the Commission's Website at www.puc.idaho.gov. Click on "File Room," in the upper-left-hand-corner and then on "IPUC 2017 Annual Report."

Front cover photograph courtesy of Avista Utilities.



Idaho Public Utilities Commission

P.O. Box 83720, Boise, ID 83720-0074

C.L. Butch Otter, Governor

Paul Kjellander, Commissioner
Kristine Raper, Commissioner
Eric Anderson, Commissioner

December 1, 2017

*The Honorable C.L. "Butch" Otter
Governor of Idaho
Statehouse
Boise, ID 83720-0034*

Dear Governor Otter:

It is my distinct pleasure to submit to you, in accordance with Idaho Code §61-214, the Idaho Public Utilities Commission 2017 Annual Report. This report provides a detailed description of the most significant cases, decisions and other activities throughout 2017. The financial report on Page 8 offers a summary of the commission's budget through the conclusion of Fiscal Year 2017, which ended June 30, 2017.

It has been a privilege and honor serving the people of Idaho this past year.

Sincerely,

A handwritten signature in black ink that reads "Paul Kjellander".

*Paul Kjellander
President, Idaho Public Utilities Commission*

COMMISSIONERS

PAUL KJELLANDER



Paul Kjellander serves as president of the Idaho Public Utilities Commission, having been appointed to his current six-year term in 2017 by Gov. C.L. “Butch” Otter. His term expires in 2023.

It is Commissioner Kjellander’s second term in his second stint on the Commission, having previously served from January 1999 until October 2007. Gov. C.L. “Butch” Otter reappointed Kjellander in April 2011, following his service as administrator of the newly created state Office of Energy Resources (OER).

A member of the National Association of Regulatory Commissioners’ board of directors, Kjellander is chairman of the association’s Committee on Telecommunications and serves as NARUC representative to the North American Numbering Council. He previously served on NARUC’s Committee on Consumer Affairs and its Electricity Committee.

Kjellander is an at-large member of the National Council on Electricity Policy, which is funded by the US Department of Energy and managed by NARUC.

Kjellander is also a member of the Federal Communications Commission’s 706 Joint Board, and has served as chairman of the FCC’s Federal-State Joint Board on Jurisdictional Separations.

During his time at OER, which is now known as the Office of Energy and Mineral Resources, Kjellander created an aggressive energy efficiency program funded through the federal American Recovery and Reinvestment Act of 2009. He also served on the board of the National Association of State Energy Officials.

Before joining the Commission in 1999, Kjellander was elected to three terms in the Idaho House of Representatives, where he served from 1994 to 1999. As a legislator, Kjellander served on a number of committees, including the House State Affairs, Judiciary and Rules, Ways and Means, Local Government and Transportation. During his final term in office, Kjellander was elected chairman of the House Majority Caucus.

Kjellander has also served as director of Boise State University’s College of Applied Technology Distance Learning, program head of broadcast technology, station manager of BSU Radio Network, director of the Special Projects Unit for BSU Radio and BSU Radio’s director of News and Public Affairs.

He earned undergraduate degrees in communications, psychology and art from Muskingum College in Ohio. He also has a master’s degree in telecommunications from Ohio University.

COMMISSIONERS

KRISTINE RAPER

Kristine Raper was appointed to the commission on Feb. 19, 2015 by Gov. C.L. “Butch” Otter. Her term expires in January 2021.

Commissioner Raper serves on the Electricity Committee of the National Association of Regulatory Utility Commissioners (NARUC) and is the incoming president of the Western Conference of Public Service Commissioners.

Raper is a member of the Body of State Regulators for the California ISO’s Energy Imbalance Market. She is also a member of the State-Provincial Steering Committee.

Raper recently testified before Congress regarding Public Utility Regulatory Policies Act (PURPA), defending Idaho’s decisions regarding the federal law.

Commissioner Raper has also testified on PURPA issues before the Idaho Supreme Court, District Court and the Federal Energy Regulatory Commission, which enforces PURPA.

Raper previously served on the Member Advisory Committee of the Western Electric Coordinating Council (WECC).

Prior to her appointment to the Idaho Public Utilities Commission, Raper served for seven years as a deputy attorney general assigned to the Commission. During her time as an attorney for the Commission, Raper was involved in electric, gas, water and telecommunications cases, with an emphasis on PURPA-related matters.

Before her service as a deputy attorney general, Commissioner Raper served for eight years as a law clerk to R.D. Maynard of the Idaho Industrial Commission. There, Raper developed expertise in state worker’s compensation law and unemployment matters appealed through the Idaho Department of Labor.

Raper was born in Delaware and moved to Utah with her family in the early 1980s. She moved to Boise in 1990 to attend Boise State University and earned a bachelor of science in criminal justice in 1995. She received her juris doctor from the University of Idaho in 2001.

The commissioner and her husband, Mark, share three children.



COMMISSIONERS

ERIC ANDERSON



Eric Anderson was appointed to the Commission in December 2015. His term expires in January 2019.

Commissioner Anderson serves on the National Association of Regulatory Utility Commissioners' Committee on Water as well as its Committee on International Relations.

Before his appointment by Gov. C.L. "Butch" Otter, Anderson served five terms in the Idaho Legislature, from 2004-2014. Anderson was chairman of the House Ways and Means Committee in his final term in the state Legislature.

As a member of the state House of Representatives, Anderson served on a number of committees, including Environment, Energy and Technology; Commerce and Human Resources; Resources and Conservation; Business; and State Affairs. He also chaired a legislative Interim Subcommittee on Renewable Energy.

Anderson received a bachelor of art degree in political science and government from Eastern Washington University in 1979.

A general contractor and real estate broker, Anderson served as director and vice president of Sandpoint-based Northern Lights Inc., an electric cooperative in Sandpoint, prior to his appointment to the Commission.

He has also served as a director of the Idaho Consumer-Owned Utilities Association, the National Rural Electric Cooperative Association and the Idaho Energy Resources Authority. He is a past member and advisor to the Pacific States Marine Fisheries Council and the Pacific Northwest Economic Region's Executive Council.

FINANCIAL SUMMARY FUND 0229***Fiscal Years 2013-2017**

Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Personnel Costs	\$3,491,500	\$3,528,900	\$3,563,500	\$3,835,900	\$4,070,200
Communication Costs	\$31,300	\$31,000	\$23,500	\$28,700	\$23,400
Employee Development Costs	\$55,600	\$53,200	\$99,200	\$98,700	\$81,400
Professional Services	\$9,700	\$12,300	\$8,500	\$8,600	\$11,900
Legal Fees	\$551,600	\$519,700	\$538,400	\$579,400	\$482,100
Employee Travel Costs	\$123,600	\$141,100	\$152,500	\$159,200	\$173,900
Fuel & Lubricants	\$4,700	\$2,700	\$5,600	\$2,900	\$4,900
Insurance	\$3,100	\$4,400	\$4,300	\$2,000	\$3,500
Rentals & Leases	\$276,100	\$584,600	\$308,600	\$223,800	\$147,000
Misc. Expenditures	\$117,000	\$104,700	\$84,400	\$104,300	\$114,900
Computer Equipment	\$29,200	\$66,400	\$73,600	\$52,200	\$44,700
Office Equipment	\$13,000	\$11,900	\$16,500	\$8,100	\$4,200
Motorized/Non-Motorized Equip	\$0	\$0	\$32,500	\$0	\$0
Specific Use Equipment	\$0	\$0	\$0	\$1,700	\$4,500
Total Expenditures	\$4,706,400	\$5,060,900	\$4,911,100	\$5,095,100	\$5,166,600
Fund 0229-20 Appropriation	\$4,916,800	\$5,061,700	\$5,595,600	\$5,766,500	\$5,902,700
Unexpended Balance	\$210,400	\$800	\$684,500	\$671,400	\$736,100

* This summary represents assessment-funded expenses only. It does not include federal or other funds.

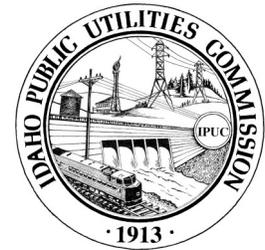
COMMISSION STRUCTURE AND OPERATIONS

Under state law, the Idaho Public Utilities Commission supervises and regulates Idaho's investor-owned utilities – electric, gas, telecommunications and water – assuring adequate service and affixing just, reasonable and sufficient rates.

The commission does not regulate publicly owned, municipal or cooperative utilities.

The governor appoints the three commissioners with confirmation by the Idaho Senate. No more than two commissioners may be of the same political party. The commissioners serve staggered six-year terms.

The governor may remove a commissioner before his/her term has expired for dereliction of duty, corruption or incompetence.



The three-member commission was established by the 12th Session of the Idaho Legislature and was organized May 8, 1913 as the Public Utilities Commission of the State of Idaho. In 1951 it was reorganized as the Idaho Public Utilities Commission. Statutory authorities for the commission are established in Idaho Code titles 61 and 62.

The IPUC has quasi-legislative and quasi-judicial as well as executive powers and duties.

In its quasi-legislative capacity, the commission sets rates and makes rules governing utility operations. In its quasi-judicial mode, the commission hears and decides complaints, issues written orders that are similar to court orders and may have its decisions appealed to the Idaho Supreme Court. In its executive capacity, the commission enforces state laws and rules affecting the utilities and rail industries.

Commission operations are funded by fees assessed on the utilities and railroads it regulates. Annual assessments are set by the commission each year in April within limits set by law.

The commission president is its chief executive officer. Commissioners meet on the first Monday in April in odd-numbered years to elect one of their own to a two-year term as president. The president signs contracts on the commission's behalf, is the final authority in personnel matters and handles other administrative tasks. Chairmanship of individual cases is rotated among the commissioners.

COMMISSION STRUCTURE AND OPERATIONS

The commission conducts its business in two types of meetings – hearings and decision meetings. Decision meetings are typically held once a week, usually on Monday.

Formal hearings are held on a case-by-case basis, sometimes in the service area of the impacted utility.



IPUC hearing room

These hearings resemble judicial proceedings and are recorded and transcribed by a court reporter.

There are technical hearings and public hearings.

At technical hearings, formal parties who have been granted “intervenor status” present testimony and evidence, subject to cross-examination by attorneys from the other parties, staff and the commissioners.

At public hearings, members of the public may testify before the commission.

Many public hearings are conducted in cities and towns that are part of the service territory of the utility seeking a rate increase. In less contested rate cases, the commission will sometimes conduct hearings telephonically to save expense and allow customers to testify from the comfort of their own homes. Commissioners and other interested parties gather in the Boise hearing room and are telephonically connected to ratepayers who call in on a toll-free line to provide testimony or listen in to those testifying.

The commission also conducts regular decision meetings to consider issues on an agenda prepared by the commission secretary and posted in advance of the meeting. These meetings are usually held Mondays at 1:30 p.m., although by law the commission is required to meet only once a month. Members of the public are welcome to attend decision meetings.

Typically, decision meetings consist of the commission’s review of decision memoranda prepared by commission staff. Minutes of the meetings are taken. Decisions reached at these meetings may be either final or preliminary, but subsequently become final when the commission issues a written order signed by a majority of the commission. Under the Idaho Open Meetings Law, commissioners may also privately deliberate matters that have been fully submitted.



IPUC headquarters at 472 W. Washington St. in downtown Boise

COMMISSION STAFF

OUR MISSION

- **Determine fair, just and reasonable rates and utility practices for electric gas and water consumers.**
- **Ensure that delivery of utility services is safe, reliable and efficient.**
- **Ensure safe operation of pipelines and rail carriers within the state.**

To help ensure its decisions are fair and workable, the Commission employs a staff of about 50 people – engineers, rate analysts, attorneys, accountants, investigators, economists, secretaries and other support personnel. The Commission staff is organized into three divisions – administration, legal and utilities.

The staff analyzes each petition, complaint, rate-increase request or application for an operating certificate received by the Commission. In formal proceedings before the Commission, the staff acts as a separate party to the case, presenting its own testimony, evidence and expert witnesses. The Commission considers staff recommendations along with those of other participants in each case - including utilities, public, agricultural, industrial, business, environmental and consumer groups.

Administration

The Administrative Division is responsible for coordinating overall IPUC activities. It includes the three commissioners, a policy analyst, a commission secretary, an executive administrator, an executive assistant, public information officer and support personnel.

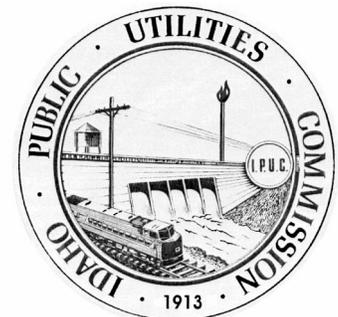
The policy analyst is an executive level position that reports directly to the commissioners with policy and technical consultation and research support regarding major regulatory issues in the areas of electricity, telecommunications, water and natural gas. Strategists are also charged with developing comprehensive policy strategy, providing assistance and advice on major litigation before the commission, public agencies and organizations.

Contact Stephen Goodson, Policy Analyst, (208) 334-0323.

The commission secretary, a post established by Idaho law, keeps a precise public record of all commission proceedings. The secretary issues notices, orders and other documents to the proper parties and is the official custodian of documents issued by and filed with the commission. Most of these documents are public records.

Contact Diane Hanian, Commission Secretary, (208) 334-0338.

The executive administrator has primary responsibility for the commission's fiscal and administrative operations, preparing the commission budget and supervising fiscal, administration, public information,



COMMISSION STAFF

personnel, information systems, rail section operations and pipeline safety. The executive administrator is the primary contact for matters concerning Information Technology, Fiscal and Human Resources. He also serves as a liaison between the commission and other state agencies and the Legislature.

Contact Joe Leckie, Executive Administrator, (208) 334-0331.

Legal

Five deputy attorneys general are assigned to the commission from the Office of the Attorney General and have permanent offices at IPUC headquarters. The IPUC attorneys represent the staff in all matters before the commission, working closely with staff accountants, engineers, investigators and economists as they develop their recommendations for rate case and policy proceedings.

In the hearing room, IPUC attorneys coordinate the presentation of the staff's case and cross-examine other parties who submit testimony. The attorneys also represent the commission itself in state and federal courts and before other state or federal regulatory agencies.

Contact Karl Klein, Legal Division Director, (208) 334-0320.

Utilities Division

The Utilities Division, responsible for technical and policy analysis of utility matters before the commission, is divided into five sections.

Contact Randy Lobb, Utilities Division Administrator, (208) 334-0350.

The Accounting Section of six auditors and one supervisor audits utility books and records to verify reported revenue, expenses and compliance with commission orders. Staff auditors present the results of their findings in audit reports as well as in formal testimony and exhibits. When a utility requests a rate increase, cost-of-capital studies are performed to determine a recommended rate of return. Revenues, expenses and investments are analyzed to determine the amount needed for the utility to earn the recommended return on its investment. **Contact Terri Carlock, Utilities Division Deputy Administrator and Accounting Section Supervisor, (208) 334-0356.**

The Engineering Section of three engineers, two analysts and one supervisor reviews the physical operations of utilities. The staff of engineers and analysts develops computer models of utility operations and compares alternative costs to repair, replace and acquire facilities to serve utility customers. The group calculates and analyzes the price of acquiring cogeneration and renewable generation facilities and identifies the cost of serving various types of customers. They evaluate the adequacy of utility services and frequently help resolve customer complaints.

Contact Mike Louis, Engineering Section Supervisor, (208) 334-0316.

The Technical Analysis section of four utility analysts and one supervisor reviews utility Integrated Resource Plans, capital investments and forecasts of energy, water and natural gas use. They examine the prudence and cost-effectiveness of all Demand Side Management (DSM) programs, which include energy efficiency and demand response. They also identify potential for new DSM programs, track the impact on utility revenues and focus on residential self-generation.

Contact Stacey Donohue, Technical Analysis Section Supervisor, (208) 334-0363.

COMMISSION STAFF

The Telecommunications section includes two analysts who oversee tariff and price list filings, area code oversight, Universal Service, Lifeline and Telephone Relay Service. They assist and advise the commission on technical matters that include advanced services, 911 and other matters as requested.

Contact Carolee Hall, Telecommunications Analyst, (208) 334-0364.

The Consumer Assistance section includes five division investigators and one supervisor who resolve conflicts between utilities and their customers. Customers faced with service disconnections often seek help in negotiating payment arrangements. Consumer Assistance may mediate disputes over billing, deposits, line extensions and other service problems. Consumer Assistance monitors Idaho utilities to verify they are complying with commission orders and regulations. Investigators participate in general rate and policy cases when rate design and customer service issues are brought before the Commission.

Contact Beverly Barker, Consumer Assistance Administrator, (208) 334-0302.

Railroad Section

Our rail inspector oversees the safe operations of railroads that move freight throughout Idaho and enforces state and federal regulations safeguarding the transportation of hazardous materials by rail in the state. The Commission's rail safety specialist inspects railroad crossings and rail clearances for safety and maintenance deficiencies. The Rail section helps investigate all railroad-crossing accidents and makes recommendations for safety improvements to crossings.

As part of its regulatory authority, the commission evaluates the discontinuance and abandonment of railroad service in Idaho by conducting an independent evaluation of each case to determine whether the abandonment of a particular railroad line would adversely affect Idaho shippers and whether the line has any profit potential. Should the commission determine abandonment would be harmful to Idaho interests, it then represents the state before the federal Surface Transportation Board, which has authority to grant or deny line abandonments.

Contact Joe Leckie, Rail Section Manager, (208) 334-0331.

Pipeline Safety

The three-member Pipeline Safety section oversees the safe operation of the intrastate oil and natural gas pipelines in Idaho.

Pipeline safety personnel verify compliance with state and federal regulations by on-site inspections of intrastate pipeline distribution systems. Part of the inspection process includes a review of record-keeping practices and compliance with design, construction, operation, maintenance and drug/alcohol abuse regulations.

Key objectives of the program are to monitor accidents and violations, to identify their contributing factors and to implement practices to avoid accidents. All reportable accidents will be investigated and appropriate reports filed with the U.S. Department of Transportation in a timely manner.

Contact Joe Leckie, Pipeline Safety Program Manager, (208) 334-0331.

WHY CAN'T YOU JUST TELL THEM NO?

One of the most frequently asked questions the PUC receives after a utility files an application for a rate increase is, “Why can’t you just tell them no?” Actually, we can, but not without evidence.

For more than 100 years, public utility regulation has been based on this regulatory compact between utilities and regulators: Regulated utilities agree to invest in the generation, transmission and distribution necessary to adequately and reliably serve all the customers in their assigned territories. In return for that promise to serve, utilities are guaranteed recovery of their prudently incurred expense along with an opportunity to earn a reasonable rate of return. The rate of return allowed must be high enough to attract investors for the utility’s capital-intensive generation, transmission and distribution projects, but not so high as to be unreasonable for customers.

In setting rates, the Commission must consider the needs of both the utility and its customers. The Commission serves the public interest, not the popular will. It is not in customers’ best interest, nor is it in the interest of the State of Idaho, to have utilities that do not have the generation, transmission and distribution infrastructure to be able to provide safe, adequate and reliable electrical, natural gas and water service. This is a critical, even life-saving, service for Idaho’s citizens and essential to the state’s economic development and prosperity.

Unlike unregulated businesses, utilities cannot cut back on service as costs increase. As demand for electricity, natural gas and water grows, utilities are statutorily required to meet that demand.

The Commission walks a fine line in balancing the needs of utilities to serve customers and customers’ ability to pay.

When a rate case is filed, our staff of auditors, engineers, analysts and attorneys will take up to six months to examine the request. During that period, other parties, often representing customer groups, will “intervene” in the case for the purpose of conducting discovery, presenting evidence and cross-examining the company and other parties to the case. The Commission staff, which operates independently of the Commission, will also file its own comments that result from its investigation of the company’s request. The three-member Commission will also conduct technical and public hearings.

Once testimony is presented from the company, commission staff and intervening parties, and testimony is taken from hearings and written comments, that information is included in the official record for the case. It is only from the evidence contained in this official record that the Commission can render a decision.

If the utility has met its burden of proof in demonstrating that the additional expense it incurred was 1) necessary to serve customers and 2) prudently incurred, the Commission must allow the utility to recover that expense. The Commission can — and often does — deny recovery of some or all the expense utilities seek to recover from customers if the Commission is confident it has the legal justification to do so. Utilities and parties to a rate case have the right to petition the Commission for reconsideration. If reconsideration is not granted, the Commission’s decision can be appealed to the state Supreme Court.



2017 MAJOR EVENTS

Idaho gets second area code

Idaho's transition to a new area code and mandatory 10-digit dialing came to a close in September.

The process of introducing the state's second area code began in fall 2015, when the Commission approved a plan calling for mandatory 10-digit dialing in August 2017 and for providers to begin assigning the 986 area code to new customers in September 2017.



The need for Idaho's second area code was prompted by warnings that the state was on track to exhaust its supply of available telephone numbers by mid-2018.

The Commission had staved off the need for a new area code in 2001 by implementing various numbers conservation plans that successfully delayed the need by 15 years.

The demand for telephone numbers has increased significantly since then, however, due primarily to the proliferation of cell phones, the Internet, Voice over Internet Protocol and other emerging technologies.

The Commission decided in November 2015 that the state should assign the new area code statewide to all new phone numbers effective Sept. 5, 2017. Referred to as a "geographic overlay," this approach was one of two options for implementation of the new area code and was the unanimous recommendation of the state's telecommunications providers.

The other option, a "geographic split," would have assigned the new area code to all numbers in half of the state, requiring all customers in the area assigned the new area code to change their telephone numbers. That would have caused significant disruptions to businesses in the area with the new area code, the Commission determined.

While the "geographic overlay" option meant that everyone could keep their existing phone number, it also meant that Idahoans would have to dial 10 digits (area code plus prefix plus four digit number) for all calls within the state.

To ensure residents were prepared for this change, the Commission established a 16-month transition period highlighted by the introduction of voluntary 10-digit dialing in November 2016.

Ten-digit dialing became mandatory for all calls on Aug. 5, 2017, and providers began assigning the 986 area code on Sept. 5, 2017.

Commissioner Raper testifies before Congress regarding PURPA

Commissioner Kristine Raper spoke at a hearing before the House Energy and Commerce Committee's Subcommittee on Energy in September about the need to reform the Public Utility Regulatory Policies Act of 1978 (PURPA).

PURPA was intended in part to promote the development of renewable energy by requiring utilities to buy power from qualifying renewable facilities. While PURPA supporters say the law has helped spur

2017 MAJOR EVENTS

the development of wind and solar energy, critics contend developers of renewable energy are manipulating the law, resulting in higher electric rates.



Complaints in recent years prompted the House Energy and Commerce Subcommittee to review the law.

A series of hearings called “Powering America: Reevaluating PURPA’s Objectives and Its Effects on Today’s Consumers,” were part of that review process.

In her testimony, Raper urged lawmakers to take steps to fix PURPA’s flaws.

State regulators should have more authority to determine what constitutes a qualifying facility under the law, Raper testified. Today that responsibility is exclusively under the jurisdiction of the Federal Energy Regulatory Commission.

Avista Utilities proposes merger with HydroOne

In September, Avista requested regulatory approval of its proposed merger with HydroOne Limited, which provides electric service to more than 1.3 million customers in Ontario.

The Commission is one of several regulatory entities that must approve the \$5.3 billion deal. Others include regulatory agencies in Washington state, Oregon, Montana and Alaska, and the Federal Energy Regulatory Commission.

The merger also must comply with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and it must be authorized by the Committee on Foreign Investment in the United States, an inter-agency governmental board charged with reviewing the national security implications of foreign investments in US companies.

If the merger is approved, Avista would become a wholly-owned subsidiary of HydroOne but would keep its name and continue to operate out of its current headquarters in Spokane as a “standalone utility” with its existing employees and management team.

Combined, the two companies would be one of the largest regulated utilities in North America, with more than \$25.4 billion in assets.

In its application requesting Commission approval, Avista said its customers would see immediate benefits of receiving service from a larger utility, including a proposed rate credit of \$31.5 million that would be distributed over a 10-year period.

Long-term benefits of the merger include increased purchasing power and reduced costs associated with efficiencies that emerge as best practices and business processes are developed and technology shared, according to the company.

Based in Toronto, HydroOne is the largest electric utility in Ontario. It lacks generation resources but maintains a network of nearly 19,000 miles of transmission lines and 77,000 miles of distribution lines.

2017 MAJOR EVENTS

Avista's generation resources include eight hydropower facilities, five natural gas plants and a biomass facility. The company has ownership interest in two coal-fired plants and maintains more than 20,800 miles of transmission and distribution lines. It provides electric service to approximately 130,000 Idahoans and natural gas service to more than 80,000 in northern Idaho.

The Commission will analyze the proposed merger in order to determine whether it is in the interest of Idaho residents. Idaho Code 61-328 states that an electric utility may transfer property only if the Commission finds that:

- Rates will not increase because of the transaction.
- The buyer has the intent and financial ability to operate and maintain the property in the public service.
- The transaction is consistent with the public interest.

The Ontario government owns 49.9 percent of HydroOne's shares but "it does not hold or exercise any managerial oversight over Hydro One," according to the application.

If the merger is approved, Avista would no longer be a publicly-traded company and would instead have one owner, HydroOne.

The companies have requested Commission approval of the merger by mid-August 2018.



Intermountain Gas rate case resolved

In April, the Commission approved a rate increase for Intermountain Gas customers, the company's first general rate case since 1985.

The Commission's 46-page order called for a 1.58-percent increase effective May 1.

The company's proposal had called for rates to increase by an average of 4.06 percent but was revised to an average 3.7-percent increase after a three-day technical hearing.

The Commission's decision also called for the elimination of seasonal rates for residential customers, adoption of a demand charge for two customer classes – large volume and transportation, and acceptance of Intermountain's proposal to create demand side management programs to help customers reduce natural gas consumption in order to decrease the amount of gas the company would have to buy from wholesale suppliers.

Intermountain petitioned the Commission to reconsider its decision on May 18, citing four concerns.

Two of Intermountain's concerns pertained to weather data used to project energy usage, and therefore revenue. In its order, the Commission found that Intermountain Gas' methodology for using weather data to forecast energy usage among its customers was not reproducible.

That made it impossible to determine whether the company's model accurately projected the amount of energy it would need to purchase, and the amount of revenue required to recover those expenses

2017 MAJOR EVENTS

through customer rates, the Commission said. As a result, the Commission used a weather normalization model developed specifically for this case and decreased the associated revenue requirement by approximately \$2 million.

Intermountain's reconsideration petition said the Commission's analysis overstated revenue.

The utility also expressed concern with the Commission's decisions to disallow \$1.38 million in expenses paid to Intermountain's affiliate, MDU Resources, and \$704,000 in nonexecutive incentive compensation.

In granting Intermountain's reconsideration petition, the Commission directed the interested parties to explore settlement opportunities. The parties, which included the company, commission staff and the Northwest Industrial Gas Users, forged a settlement agreement in September that called for a compromise on the four concerns that Intermountain had cited.



The settlement approved by the Commission allowed the company to recover an additional \$1.2 million in expenses related to affiliated expenses and incentive compensation, representing a 50/50 split of the dollar amounts related to these two issues, and to recover an additional \$6,065 in annual base rate revenues related to weather modeling. The settlement also establishes a procedure for determining the weather normalization methodology employed in future rate cases.

The settlement agreement resulted in a 1.36-percent rate increase across all customer classes. That equates to an additional 37 cents on the monthly bill of the average residential customer.

IPUC rules on Idaho Power preparations for entry into Energy Imbalance Market

In February, the Commission approved Idaho Power's request to authorize a deferral account to track the costs incurred associated with joining the California ISO's Energy Imbalance Market (EIM).

The Commission believed it was premature to find that the utility's participation would benefit customers in the long term, however.

The EIM that Idaho Power plans to join in April 2018 balances the supply and demand for energy via automated dispatch services at five-minute intervals from generation resources across the region.

Idaho Power's current configuration features hourly dispatch services from its own generation and reserve resources.

Idaho Power contends that moving from an hourly market to a five-minute imbalance market will allow it to balance supply and demand more efficiently and cost-effectively.

The potential annual savings could be between \$4 million and \$5 million, Idaho Power said; the upfront costs of joining the EIM were estimated at approximately \$11 million.

The Commission adopted Idaho Power's proposal to spread the initial costs over a 10-year period but

2017 MAJOR EVENTS

said the costs cannot be recovered from ratepayers until they are known rather than estimated. Those costs also must be found to be prudently incurred before they are included in rates.

In its order, the Commission also asked the company to provide more evidence of customer benefits.

Idaho Power had proposed providing a quarterly benefits report provided by the EIM administrator, the California Independent System Operator. The Commission asked for such a report but further directed the company to provide a report one year after joining the EIM that outlines the costs and benefits of participation.

Commission approves settlement related to early closure of coal plant

In June, the Commission approved a settlement related to the early retirement of a coal-fired plant in Nevada.

The settlement allows the company to accelerate the recovery of its investment in the North Valmy Power Plant through base rates, leading to a rate increase of 1.17 percent.

That equates to an additional \$1.20 on the monthly bill of the typical residential customer using 1,000 kilowatt-hours (kWh) per month.

The company had originally proposed raising rates by 3.1 percent to recover its investment in Valmy. That would have led to a \$3.08 increase to the monthly bill of the typical residential customer using 1,000 kWh per month.



The settlement agreement calls for shuttering Valmy's Unit 1 in 2019, and Unit 2 in 2025.

Unit 1 went into service in 1981 and Unit 2 came online in 1985. Each had a 50-year life expectancy, and their depreciation was embedded in Idaho Power's base rates with the expectation that the units would operate until 2031 and 2035, respectively.

The rate increase is expected to generate nearly \$13.3 million in annual revenue until 2028, when Valmy is fully depreciated – down from \$28.5 million in Idaho Power's original proposal.

Idaho Power maintains that closing the plant early will ultimately save customers money. The company said a significant decrease in market prices for electricity had made it uneconomic to operate the 522-megawatt plant except during extremely cold or hot weather, when the demand for energy surges.

Idaho Power said costs associated with the plant's operation have increased significantly since 2011.