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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION OF TIME-OF-USE PRICING FOR IDAHO POWER RESIDENTIAL CUSTOMERS.)	CASE NO. IPC-E-02-12 IDAHO POWER COMPANY'S PETITION FOR RECONSIDERATION

Idaho Power Company (hereinafter referred to as "Idaho Power" or "the Company"), Petitioner herein, pursuant to RP 331 and § 61-626, Idaho Code, respectfully petitions the Commission for reconsideration of Order No. 29196[1] as set forth below, on the grounds that Order No. 29196 is unreasonable, unlawful, erroneous, unduly discriminatory, and not in conformity with the facts of record and/or the applicable law. Idaho Power requests that the Commission hold a hearing in this case to allow Idaho Power the opportunity to fully present all of the relevant facts to the

[1] Order No. 29196 issued on February 21, 2003, did not contain a provision that the order was a final order. On March 12, 2003, Idaho Power filed a Petition For Confirmation that Order No. 29196 is or is not a final order. Idaho Power has filed this Petition For Reconsideration within twenty-one (21) days of February 21, 2003, to avoid any question that this Petition was timely filed.

Commission. Idaho Power's request for reconsideration and its request for a hearing are based on the following grounds:

I.

GROUNDS FOR RECONSIDERATION

1. Because the Commission did not include the mandatory language designating Order No. 29196 as a final order, it must be deemed to be an interlocutory order. Interlocutory orders are not appealable. However, Order No. 29196 orders Idaho Power to begin replacing all of its retail revenue metering with an automated meter reading ("AMR") system as soon as possible and orders Idaho Power to file a plan by March 20, 2003, explaining how it will replace its existing retail revenue meters and to address the ratemaking and other issues outlined in the order. This leaves Idaho Power in the position that it is unable to appeal the Commission's decision to require the deployment of AMR but is required not only to submit a plan to commence such deployment, but to actually commence deployment in 2003. Such a result is unreasonable, unlawful, erroneous, unduly discriminatory and not in conformity with the law.

2. Because the Commission did not give Idaho Power notice, has not held a hearing in this case, has not issued a final order, or otherwise given Idaho Power an opportunity to respond to the Commission's decision to require Idaho Power to replace all of its existing revenue metering with an AMR system by the end of calendar year 2004, Order No. 29196 is unreasonable, unlawful, erroneous and not in conformity with the law.

3. The requirement in Order No. 29196 that Idaho Power replace all of its existing retail revenue metering with an AMR system by the end of calendar year 2004 is unreasonable, unlawful, erroneous and unduly discriminatory because it was issued without adequate notice and is based on an erroneous finding, without evidentiary support in the record, that installation of AMR will result in an immediate reduction in the Company's revenue requirement.

4. The requirement in Order No. 29196 that Idaho Power replace all of its existing retail revenue metering with an AMR system by the end of 2004 is unreasonable, unlawful, erroneous and unduly discriminatory because it is based on an erroneous finding, without evidentiary support in the record, that "Given the Company's financial health is improving, we are confident that Idaho Power will find a way to implement AMR this year." Order No. 29196, p. 11.

5. Because the Commission has not held a hearing in this case or otherwise given Idaho Power prior notice and an opportunity to respond, Idaho Power has been precluded from presenting evidence concerning numerous additional issues relating to a rapid deployment of an AMR system. These additional issues are more particularly identified in subsection 4 of Section III of this Petition.

II.

PROCEDURAL HISTORY

In Case Nos. IPC-E-02-02 and IPC-E-02-03, cases initiated by Idaho Power to implement its annual Power Cost Adjustment, the Commission directed Idaho Power to evaluate and report to the Commission on the viability of a time-of-use (TOU) residential metering program by September 12, 2002. Order No. 29026 at 22. In compliance with that order, Idaho Power submitted its "Residential Time-of-Use Pricing Viability Study" on September 12, 2002. In December 2002, interested parties filed comments to which Idaho Power replied on January 17, 2003. In Order No. 29196 the Commission determined that it would not require Idaho Power to implement TOU pricing. However, without a hearing or any prior notice or opportunity to respond, Order No. 29196 ordered Idaho Power to immediately begin replacing its existing retail revenue metering with an AMR system. Order No. 29196 further requires that by March 20, 2003, Idaho Power must submit a plan to replace the Company's current revenue meters with meters that are both AMR and TOU capable. Order No. 29196 directs that the plan should set out an implementation timetable, include several cost estimates from appropriate AMR system vendors, and suggest possible ratemaking methods to recover the cost of the meters and their installations, together with expense reductions.

III.

NATURE OF EVIDENCE AND ARGUMENT PETITIONER WILL PRESENT ON APPEAL

RP 331.01 provides that a petition for reconsideration must include a statement of the nature and quantity of evidence or argument the Petitioner will offer if reconsideration is granted. The following outlines the evidence and argument Idaho Power will offer at a hearing on reconsideration:

1. Because the Commission did not give Idaho Power notice, has not held a hearing in this case, and has not issued a final order or otherwise given Idaho Power an opportunity to respond to the Commission's decision to require Idaho Power to immediately replace all of the existing revenue metering

with an automated meter reading system by the end of calendar year 2004, Order No. 29196 is unreasonable, unlawful, erroneous and not in conformity with the law.

If the Commission grants reconsideration, Idaho Power will present argument that the process to date has not provided Idaho Power with procedural due process.

2. The requirement in Order No. 29196 that Idaho Power replace all of its existing retail revenue metering with an AMR system by the end of calendar year 2004 is unreasonable, unlawful, erroneous and unduly discriminatory because it was issued without notice and is based on an erroneous finding, without evidentiary support in the record, that installation of AMR will result in an immediate reduction in the Company's revenue requirement.

In Order No. 29196 the Commission concluded that the implementation of AMR, even without the implementation of TOU pricing, would result in immediate annual savings to customers. In support of this conclusion, Order No. 29196 cites Commission Staff comments in which the Staff has interpreted data contained in a 2002 automated meter reading analysis prepared by Idaho Power. Unfortunately, the Staff has incorrectly interpreted the 2002 AMR analysis to conclude that implementation of an AMR system would result in immediate annual savings of approximately $2 million (Order No. 29196, p. 10). In fact, implementation of an AMR system within the timeframe required in Order No. 29196 would *increase* total revenue requirement for at least the first seven years, as compared to the cost of operating the existing meter reading system. If the Commission grants Idaho Power's request for a hearing on reconsideration, Idaho Power would present testimony and exhibits documenting the following:

(a) In 1999, Idaho Power completed its Idaho City trial in which the two-way automated communications system (TWACS) technology was tested. The initial investment in AMR meters of $72 million, cited in Order No. 26196, is accurate for the AMR analysis done in 1999 and adjusted for customer counts as of January 1, 2001. The initial AMR investment for January 1, 2002 customer counts was $76 million (the Company's current 2002 AMR estimate) and is increasing with Idaho Power's customer growth. Idaho Power estimates that the investment would be approximately $79 million as of January 1, 2003.

(b) The 2002 AMR analysis was performed as part of the Company's ongoing review of Company processes and costs, to determine if there are more cost-effective ways to transact business. While the AMR system that was studied in 2002 would provide a good foundation for time-of-use applications, none of the Company's analyses to date, including the 2002 AMR study, has assessed the cost of all of the necessary components to add TOU capability to an AMR system. TOU would require either the installation of meters with more memory than was contemplated in the 2002 AMR analysis or in the alternative some type of ad hoc office solution that would allow for the daily collection of meter data and the processing of such data into the Company's billing system. While both alternatives are feasible, the Company has no estimates of their costs or impact on the AMR analysis.

(c) The Staff comments cited in Order No 29196 report that the 2002 AMR analysis shows a positive $32 million net present value. As stated in the 2002

AMR analysis, this positive $32 million net present value is achieved *over 40 years.* In the long-term, based on the assumptions included in the Company's analysis, AMR appears to be cost effective. By trading technology for labor, the AMR system's cost per customer is anticipated to decrease over time, due to depreciation on assets, whereas the existing metering process's cost per customer is anticipated to increase due to customer growth and wage inflation. However, in the near-term the benefits of AMR are less certain.

Assuming an installation schedule similar to the one contemplated in Order No. 29196, an AMR system would cost more annually to operate than manual meter reading for the first seven years and would result in a first year increase in revenue requirement of approximately $6 million. The net present value (NPV) of AMR compared to the Company's standard metering process would be negative until year 18 when the NPV of AMR would equal the NPV of standard metering. Each year after year 18 the NPV of AMR would exceed the NPV of standard metering, hence the positive NPV over 40 years. While the technology offers many benefits, Idaho Power is reluctant to conclude that it is prudent to move forward with a large AMR investment and require its customers to endure higher costs than necessary for the next seven years.

(d) Idaho Power is unclear of the origin of Staff's cost-benefit estimate cited in Order No. 29196. On page 10, Order No. 29196 refers to annual savings in meter reading expenses of $6 million less annualized costs for AMR of $4 million for a yearly savings of $2 million in meter reading costs. Based on the Company's AMR analysis, the annualized cost of the currently employed meter reading system ($26 million) exceeds the annualized cost of AMR ($22 million) assuming a full 40-year program. However, the Company is unaware of any information included in the AMR analysis that would support the conclusion that AMR would result in yearly savings of $2 million. According to the Company's analysis, comparing the annualized cost of AMR to our current process results in an increase in annualized costs until year 18. In the first 5, 7, and 10 years the annualized cost for AMR exceeds our current process costs by $4.5 million, $3.7 million, and $2.6 million, respectively.

Idaho Power also believes that on reconsideration the Commission should address the ramifications of rapid technology evolution. If Idaho Power invested in the AMR technology evaluated in the 2002 study, which did not include the components necessary to implement TOU, and the technology quickly became technically obsolete, Idaho Power would still have a book value in the AMR system of $64 Million after 5 years, $49 Million after 10 years and $31 Million after 15 years and would still be required to recover these costs. The Commission must determine after a full evidentiary hearing whether this level of technology risk is appropriate for Idaho Power and its customers. Recognizing that numerous TOU pilot programs are currently being conducted throughout the country, the Commission should consider whether it would be prudent to wait and let other utilities incur the cost of perfecting the technology. When an industry standard is established and the costs have stabilized, Idaho Power could invest at that time.

3. The requirement in Order No. 29196 that Idaho Power replace all of its existing retail revenue metering with an AMR system by the end of 2004 is unreasonable, unlawful, erroneous and unduly discriminatory because it was

issued without adequate notice and is based on an erroneous finding, without evidentiary support in the record, that Idaho Power can readily absorb the financial impact of installing an AMR system beginning in 2003 and completed in 2004.

In Order No. 29196 the Commission acknowledged Idaho Power's concern expressed in its reply comments that implementation of an AMR system represents a large capital investment, and in today's tight capital markets, rapid implementation in the near term would be extremely difficult. However, the Commission expressed its belief that the Company's financial health is improving and indicated a confidence that Idaho Power would be able to find a way to begin implementing AMR this year. Order No. 29196, p. 10-11. In support of its expression of confidence in Idaho Power's ability to immediately proceed with the implementation of AMR, the Commission cited statements made in the Company's fourth quarter 2002 earnings release analyst call ("Analyst Call"). The full text of the Analyst Call is not included in the evidentiary record in this case, and conclusions that can be drawn from listening to the call are subject to the personal interpretation of the various listeners. Idaho Power believes it is incorrect to characterize the discussions in the Analyst Call as supporting a view that in today's financial markets, based on Idaho Power's current cash flow, the Company can readily absorb the impact of financing an expenditure of at least $80 million over the next two years. Because there has not been a hearing in this case, and because the statements in the Analyst Call which Staff apparently believes support the immediate implementation of an AMR system, were not included in the Staff's comments, the Company has had no opportunity to respond to those comments cited in

Order No. 29196. In short, there is no evidentiary record to support the conclusion contained in the Commission's Order.

If the Commission grants reconsideration, Idaho Power will present testimony and exhibits concerning the financial impact of Order No. 29126 essentially as follows:

(a) Budgeting Process – In its reply comments previously filed in this case, Idaho Power advised the Commission that AMR costs were not included in the Company's 2003 budget. In rehearing the Company will testify that Idaho Power's 2003 construction budget of $150 million reflects an increase of over 17% from $128 million spent in 2002. This increase is driven by customer growth, the on-going maintenance of an aging infrastructure, and the costs associated with the Company's relicensing efforts. The Company must balance the needs of the system with the ability to fund these expenditures. With constrained funds due to existing capital market conditions and the continued impacts of unprecedented PCA recoveries of 2000-2001 power supply expenses, projects deemed critical to meet load growth and maintain system reliability must take precedence.

(b) Idaho Power's Earnings Improvement – The Analyst Call cited in Order No. 29196 focused on Idaho Power's improvement of 2002 earnings over the prior year. For the period ending December 31, 2002, Idaho Power reported earnings of $2.24 per share, a $1.64 per share increase over 2001. While it is true that earnings improved over the prior year, certain non-reoccurring items accounted for $.62 of earnings per share. Of this amount, $.82 of earnings per share was related to the one-time effect of a tax method accounting change only recently allowed by Congress and the IRS. This amount was offset by a $.20 per share charge due to the write-off of Irrigation Lost Revenue. Without these items, earnings would have been $1.62 per share reflecting that Idaho Power still has not fully recovered from the 2001 high wholesale power prices and continues to suffer from the on-going drought. Early indications for the hydro system show that drought conditions appear to be continuing in 2003 placing on-going pressure on earnings and cash flow due to increased power supply expenses.

(c) Investment Grade Credit Rating – Idaho Power's credit rating remained at investment grade throughout 2002. Remaining at that level is vital to ensure Idaho Power's access to the capital markets at the lowest level of cost possible. Rating agencies review a number of quantitative and qualitative variables in determining the rating. A company's capital structure, cash flow coverage ratios, and interest-to-earnings coverage ratios are of significant importance in the Rating Agencies' determinations. If a company does not have adequate internal cash generation to cover its construction activities, it must access the capital markets to support the spending.

The impacts on the Company's capital structure and coverage ratios during the last three drought years have been substantial. The 2003 construction budget amounts include prioritized investments in distribution and transmission infrastructure to support continued service territory customer growth and increased investments in hydro relicensing and the replacement of equipment at the Company's aging thermal generating plants. Those items also drive increases in the operation and maintenance areas, depreciation expense, and transmission expense increases associated with reduced hydro production.

(d) Short-Term Debt –While it is true that Idaho Power has decreased its 2002 short-term debt balance from the prior year, it was not solely due to the recovery of the 2001 PCA costs. During the fourth quarter of 2002, Idaho Power issued \$200 million of 1st Mortgage Bonds to support its construction program. The \$200 million was used to pay down short-term debt. It is important to note that approximately 75% of the 2001 power supply costs will be recovered through the Idaho PCA mechanism. The Company has deferred the Oregon share of 2001 excess power supply costs and will recover those costs over an extended period of time. The balance is a permanent reduction to the Company's cash balance and must be funded through capital markets. Additionally, cash inflows from the PCA mechanism are reduced by taxes paid on the amounts.

(e) O&M Expenses - The Commission's statement on page 11 of Order No. 29196 that "Operation and Maintenance expenses during 2002 were below forecast and are expected to remain so" appears to be based on information that was taken out of context. 2002 O&M expenses were approximately \$205 million, a 1.6% decrease from 2001. However, the outlook for 2003 shows upward pressure on those costs. Substantial increases are expected in pension expense and insurance expenses due to the declining market conditions and the effects of 9/11. Other material non-discretionary increases are expected in health care, relicensing, and transmission. The Company has also instituted a policy to limit new employment to replacement of critical positions and has frozen salaries for officers and senior management personnel in 2003.

4. In addition to the evidence previously described in this petition, at rehearing Idaho Power would present testimony and exhibits on the following items:

(1) Appropriate accounting and ratemaking treatment of the approximately $39 million of undepreciated asset value in the existing inventory of non-AMR meters.

(2) The additional costs associated with making the AMR equipment described in the 2002 AMR report capable of supporting TOU rates.

(3) Appropriate ratemaking treatment that would fully address the cost of implementing AMR. This could include an increased customer charge to support the higher cost of the AMR system.

(4) Recognition of the financial exposure related to the risk of rapid technological obsolescence of AMR equipment.

(5) The labor-related expenses accruing as a result of an accelerated severance of meter reading personnel.

(6) The logistical problems associated with the replacement of the existing retail revenue meter inventory on an accelerated basis. Idaho Power has approximately 420,000 retail revenue meters. Physically removing them and installing new AMR meters by the end of calendar year 2004 would be extremely difficult and expensive.

(7) The difficulty and additional expense associated with the purchase of a much larger number of AMR meters than anticipated in the 2002 AMR analysis within a compressed time period.

CONCLUSION

The Company believes that the evidentiary record in this proceeding is not sufficient for the Commission to make a determination on Idaho Power's Petition For Reconsideration. Idaho Power believes that additional evidence is required, and Idaho Power requests that the Commission hold a hearing on this matter.

The Company respectfully requests that the Commission agree to reconsider Order No. 29196 and establish a reasonable schedule for the Company and interested parties to present testimony and exhibits addressing the issues identified in this Petition For Reconsideration.

Idaho Power respectfully suggests that because Order No. 29196 is not a final order, in granting reconsideration the Commission could decide to hold an evidentiary hearing before issuing a final order. A hearing under these circumstances would not be required to be held within the 17-week period prescribed for reconsideration of final orders.

Alternatively, because no final order has been issued, the Commission could also decide to close this docket and open a new docket to fully explore all of the costs and benefits of installing an AMR system independent of TOU rates. In this new docket the Commission could convene a prehearing conference to set a reasonable schedule for prefiling testimony and holding an evidentiary hearing.

Respectfully submitted at Boise, Idaho, this 12th day of March, 2003.

BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 12th day of March, 2003, I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S PETITION FOR RECONSIDERATION upon the following named parties by the method indicated below, and addressed to the following:

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