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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) **CASE NO. IPC-E-06-23**
APPROVAL OF AN AGREEMENT BETWEEN)
AVIMOR, LLC AND IDAHO POWER TO)
PROVIDE ELECTRIC TRANSMISSION AND) **COMMENTS OF THE**
SUBSTATION FACILITIES TO THE AVIMOR) **COMMISSION STAFF**
MULTI-USE DEVELOPMENT.)
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure in Order No. 30165 issued on November 1, 2006 and Order No. 30186 issued on November 21, 2006 extending the comment period, submits the following comments.

BACKGROUND

On September 27, 2006, Idaho Power Company filed an Application requesting Commission approval of an Agreement between the Company and Avimor, LLC providing for the construction of transmission and distribution substation facilities for a subdivision proposed by Avimor. Distribution facilities beyond the substation would be provided subject to Rule H, Idaho Power's standard distribution line extension policy. Avimor's planned subdivision is located in Ada County,

north of Boise, in an area where Idaho Power does not have adequate facilities to accommodate the project. The agreement provides for Avimor to pay Idaho Power \$4.3 million to construct the facilities, paid in three installments. Idaho Power will own, operate and maintain the facilities that are constructed pursuant to the Agreement.

Provided Avimor has timely made all three of the installment payments, the Agreement states that Avimor shall be eligible to receive periodic refunds from Idaho Power for the cost of the required facilities up to the entire amount of \$4,300,000. Refunds to Avimor will be calculated and paid by Idaho Power on the basis of the number of Schedule 1 (residential), Schedule 7 (small general service), Schedule 9 (large general service) and Schedule 24 (agricultural irrigation) services and loads that are connected to the requested facilities by the new development. The refunds would be available to Avimor for the earlier of: (a) a period of 10 years, (b) until 685 permanent residential services within the project have been connected to the requested facilities, or (c) until the metered demand at the project's delivery point, as defined in the agreement, meets or exceeds 6,850 kW.

STAFF REVIEW

In general, Idaho Power has not historically required an advance from residential developers to extend transmission and distribution substation facilities to new developments. In this case the Company appears to have determined that the size, location and speculative nature of the development requires a special agreement. Staff agrees that a special agreement is appropriate here and that the advance and refund provisions for these facilities are necessary to protect the Company and its ratepayers from speculative development.

Under the agreement, if the Avimor development does not build out in the designated time period and provide the associated generation of new customer revenue, the developer will not receive the specified refunds and neither the Company nor its customers will be required to invest in unused facilities. Specifically, Avimor will advance the \$4.3 million cost of transmission and distribution substation facilities and will receive a full refund if all 685 residential customers connect to Idaho Power's system or if the Avimor load grows to 6,850 kW within ten years. The developer will be refunded a reduced portion of the original investment if fewer customers connect or there is less load growth during the refund period. All refunds constitute Company investment and will be included in the calculation of customer rates.

Staff nonetheless is seriously concerned with the high cost per customer of extending these facilities to serve 685 customers. At \$4.3 million to serve 685 customers, the per customer investment for Idaho Power and its existing customer base is \$6,277. This is far greater than the \$350 per customer investment that Staff calculates is currently included in residential customer rates for similar facilities (See Attachment A). Another useful comparison for these types of facilities is the investment per new residential customer that the Company made between its last two general rate cases. Staff calculates this amount to be approximately \$1,000 per new customer. (Attachment A, \$991 is rounded to \$1000) The Avimor investment is almost 18 times the \$350 per customer amount currently included in rates and is more than six times the Company's recent average investment for similar facilities. The difference between investment supported by current rates and the investment recommended in this case will require subsidy by existing ratepayers and will cause upward pressure on rates.

Irrigation customers raised a concern about new customer load growth costs relative to past costs in Idaho Power Case No. IPC-E-03-13. Even without the extraordinary per customer investment proposed in this case the cost to serve new customers is considerably higher than costs embedded in rates and these costs are allocated through the cost of service process to all customer classes. Following the IPC-E-03-13 general rate case, the Commission opened Case No. IPC-E-04-23 to study this issue and to obtain recommendations to address it. That case resulted in a report to the Commission but provided no definitive solution to the rising cost of serving new customers. Staff believes the magnitude of the Avimor investment per customer exacerbates the problem of growth related costs and needs to be mitigated.

Staff's review of possible solutions to the problem resulted in a wide range of alternatives that considered different investment possibilities and refund provisions. Attachment B to these comments identifies a number of the alternatives examined and shows the results of each for Avimor and substation build out. Avimor build out is 685 customers but the substation will serve 1400 residential customers without upgrade. For an additional cost of \$175,000 the substation can be upgraded to serve 2,800 residential customers and for another \$175,000 the substation can serve 5,600 residential customers. For each of these customer levels Attachment B shows the resulting developer impact, the impact on rate base and the resulting pressure on rates. The Attachment is organized to show the options that are most beneficial to customers first and the options that are most beneficial to Avimor last.

Option 1 would require Avimor to contribute, without possibility of refund, the entire \$4.3 million. Implementation of this option would result in no increase in Company rate base. Therefore, revenues from new customers served from these facilities would have no transmission line or distribution substation costs to cover and as shown on the Attachment would actually cause downward pressure on rates. Option 1 was never seriously considered because it would provide a windfall to ratepayers at Avimor's expense.

Under Option 2 the developer advances the initial cost of the facilities as required under the Agreement but receives refunds at the amount currently embedded in rates which is \$350 per residential customer. This option is beneficial to customers because it produces no upward pressure on rates until the substation requires expansion and then the upward pressure is small. Staff does not recommend this option, however, because when the investments for existing transmission and distribution substation facilities were actually made, the investment was more than the \$350 per customer currently embedded in rates. One reason that this is true is because the amount of the investment currently embedded in rates is a depreciated amount.

Under Option 3 the developer advances \$685,000 and contributes \$3,615,000. The developer would receive refunds at \$1,000 per customer which Staff calculates to be the average investment per customer incurred between the Company's two most recent general rate cases. This option caps upward pressure on rates at \$650 per customer (\$1,000 - \$350). Staff is not recommending this Option because it believes another option, Option 4, treats the developer more fairly and accomplishes nearly the same results.

Staff recommends Option 4. Under Option 4 the developer advances the initial facilities costs and receives refunds from all future developers or users of the substation facilities at the recent average incremental cost of providing the facilities, \$1,000 per customer. Staff also recommends that refunds be provided for a period of 20 years or until the developer receives a complete refund of the \$4.3 million that was advanced. Staff believes that this is the most fair and reasonable of the options reviewed because it effectively caps upward pressure on rates and provides the opportunity for the developer to recover its full advance if the substation provides service to 4,300 customers in 20 years or less. The developer is left with the risk that customer growth in the area to be served by the substation will not reach 4,300 customers. If there are no permanent service connections in the 20-year period, Avimor's contribution of \$4.3 million completely covers the initial cost of the unused facilities. If the Avimor development completely builds out but no customers over the 685 projected are served from the substation, Avimor would

receive \$685,000 in refunds and contribute \$3,615,000 to Idaho Power to cover the construction cost of the unused facilities.

Option 5 is essentially the Agreement as filed in this case. Under Option 5 the developer advances the initial facilities costs, \$4.3 million, and receives a prorated refund based on the build out of Avimor which is 685 residential customers. As previously mentioned, this results in a refund of \$6,277 per customer that goes to the Company's rate base and is included in rates. In Staff's view the facilities investment cannot be adequately supported by new customer revenue until more than 2800 customers are served. In the interim existing customers would experience substantial and unnecessary upward pressure on rates. In fact any growth in the area beyond 685 customers to be served by the new facilities is speculative and cannot be guaranteed.

Option 6 is the other extreme, opposite Option 1. The Company makes the entire investment and Avimor is not asked to advance or contribute any money to cover the costs of these facilities. The result is that Avimor has no risk for the cost of these facilities and the costs are rate based and paid for entirely by ratepayers. This Option was never seriously considered because it places extreme upward pressure on rates in low build out scenarios and leaves no risk for the recovery of the cost of these facilities with Avimor, who directly causes the costs to be incurred.

The Avimor Agreement as filed in this case provides for developer refunds for permanent residential service connections and for permanent service connections for Schedule 7, 9 and 24 customers. Staff agrees that the developer should receive refunds for all of these connections. For non-residential connections the refunds should be based on load per customer and, for the purposes of refund, could be stated as equivalent residential customers.

STAFF RECOMMENDATION

Staff believes Option 4 addresses the speculative nature of the Avimor development and strikes a reasonable compromise between the interests of ratepayers and the developers. Staff's proposal allows refunds totaling \$685,000 on build out of the Avimor development, with the possibility of a full refund of the \$4.3 million if the substation serves 4,300 customers in a 20-year period. Staff's proposal requires the investment cost to be advanced to protect against the speculative risk that is appropriately assigned to the developer. The recommendation also allows refunds of \$1,000 per permanent residential service, approximately the average investment per customer made by the Company for these types of facilities today. Staff's recommendation limits

or caps, but does not eliminate, upward pressure on rates that would otherwise be caused by rate basing the extremely high costs of adding these facilities under the terms of the filed Agreement.

Because the special agreement as submitted does not strike a reasonable balance between the interests of Idaho Power's ratepayers and the Avimor developer, Staff recommends the Commission deny the Company's request for approval, with instructions that an agreement be resubmitted after changes are made to mitigate the high cost ultimately borne by ratepayers.

Respectfully submitted this 15th day of December 2006.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Keith Hessing

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IPC-E-06-23
Avimor Facilities Contract
Transmission Lines and Distribution Substation
Rate Base Per Residential Customer

	IPC-E-05-28	IPC-E-03-13	Difference
Transmission			
Total Residential Transmission Rate Base	125,040,370	102,987,004	
Remove Transmission Station Equipment	<u>(52,857,595)</u>	<u>(43,259,491)</u>	
Transmission Lines	72,182,775	59,727,513	12,455,262
Average No. of Customers	345,176	321,303	23,873
Transmission Rate Base Per Customer	209	186	522
Distribution			
Distribution Substation Rate Base	48,708,348	37,516,437	11,191,911
Average No. of Customers	345,176	321,303	23,873
Distribution Rate Base Per Customer	141	117	469
Total Transmission and Distribution per Customer	350	303	991

IPC-E-06-23
AVIMOR AGREEMENT
Transmission Line & Distribution Substation
Company Invests in Substation Upgrades (Assumption)

\$4,300,000 Initial Investment
 \$1,000 Incremental Cost/Cust.
 \$350 Embedded Cost/Cust.

Option	Description	Investment		Refund	Results									
		Developer Advance (\$)	Developer Contribution Investment (\$)		Developer Refund Per Customer (\$/Cust.)	Company Investment (\$)	Customers Served (Cust.)	Developer Refund (\$)	Rate Base Addition (\$)	Rate Base Per Customer (\$/Cust.)	Developer Contribution (\$)	Upward Pressure On Rates (\$/Cust.)		
1	The Developer Contributes the initial cost.	0	4,300,000	0	0	1	0	0	0	4,300,000	0	0	0	(350)
						685	0	0	0	4,300,000	0	0	0	(350)
			175,000			1,400	0	0	0	4,300,000	0	0	0	(350)
			175,000			2,800	0	175,000	63	4,300,000	63	4,300,000	63	(288)
			175,000			5,600	0	350,000	63	4,300,000	63	4,300,000	63	(288)
2	The Developer advances the initial cost and receives refunds at the amount currently embedded in rates.	4,300,000	0	0	350	1	350	350	350	4,299,650	0	4,299,650	0	0
						685	239,750	239,750	350	4,060,250	0	4,060,250	0	0
						1,400	490,000	490,000	350	3,810,000	0	3,810,000	0	0
			175,000			2,800	980,000	1,155,000	413	3,320,000	63	3,320,000	63	63
			175,000			5,600	1,960,000	2,310,000	413	2,340,000	63	2,340,000	63	63
3	The Developer advances the incremental cost times the number of customers in his development and contributes the remainder of the initial costs. He receives refunds as his development builds out.	685,000	3,615,000	0	1,000	1	1,000	1,000	1,000	4,299,000	650	4,299,000	650	650
						685	685,000	685,000	1,000	3,615,000	650	3,615,000	650	650
						1,400	685,000	685,000	489	3,615,000	139	3,615,000	139	139
			175,000			2,800	685,000	860,000	307	3,615,000	(43)	3,615,000	(43)	(43)
			175,000			5,600	685,000	1,035,000	185	3,615,000	(165)	3,615,000	(165)	(165)
4	The Developer advances the initial cost and receives refunds from all Developers at the recent average incremental cost.	4,300,000	0	0	1,000	1	1,000	1,000	1,000	4,299,000	650	4,299,000	650	650
						685	685,000	685,000	1,000	3,615,000	650	3,615,000	650	650
						1,400	1,400,000	1,400,000	1,000	2,900,000	650	2,900,000	650	650
			175,000			2,800	2,800,000	2,975,000	1,063	1,500,000	713	1,500,000	713	713
			175,000			5,600	4,300,000	4,650,000	830	0	480	0	480	480
5	The Developer advances the initial cost and receives a complete refund with the build out of his development. The Agreement as filed for the initial investment.	4,300,000	0	0	6,277	1	6,277	6,277	6,277	4,293,723	5,927	4,293,723	5,927	5,927
						685	4,300,000	4,300,000	6,277	0	5,927	0	5,927	5,927
						1,400	4,300,000	4,300,000	3,071	0	2,721	0	2,721	2,721
			175,000			2,800	4,300,000	4,475,000	1,598	0	1,248	0	1,248	1,248
			175,000			5,600	4,300,000	4,650,000	830	0	480	0	480	480
6	The Company makes the investments.	0	0	4,300,000	0	1	0	4,300,000	4,300,000	0	4,299,650	0	4,299,650	4,299,650
						685	0	4,300,000	6,277	0	5,927	0	5,927	5,927
						1,400	0	4,300,000	3,071	0	2,721	0	2,721	2,721
			175,000			2,800	0	4,475,000	1,598	0	1,248	0	1,248	1,248
			175,000			5,600	0	4,650,000	830	0	480	0	480	480

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF DECEMBER 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-06-23, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY