Office of the Secretary
Service Date
May 28, 2010

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES DUE TO THE INCLUSION OF ADVANCED METERING INFRASTRUCTURE (AMI) INVESTMENT IN RATE BASE	)	**CASE NO. IPC-E-10-06** **ORDER NO. 31097**

On March 15, 2010, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to implement a 0.41% average increase in rates for identified class schedules due to the inclusion of $2,358,085 Advanced Metering Infrastructure (AMI) investment in rate base. The Company's filing is accompanied by workpapers and supporting testimony. The Commission in this Order approves the Company's Application and proposed increase in rates for a June 1, 2010, effective date.

BACKGROUND

In Order No. 30726 issued on February 12, 2009, in Case No. IPC-E-08-16, the Company was granted a Certificate of Public Convenience and Necessity (Certificate) to install AMI technology throughout its service territory, to accelerate the depreciation of its existing metering infrastructure, and to include the corresponding Operations and Maintenance (O&M) benefits as they occur. In Order No. 30829, in Case No. IPC-E-09-07, the Commission authorized the Company to recover $10,497,354 in AMI investment based on a 2009 test year.

APPLICATION

The proposed increase in rates requested by Idaho Power in this case is the result of including the Company's Idaho investment in AMI for a 2010 test year in the Company's rate base/revenue requirement. The Company's AMI investment grows from $28,589,837 at year-end 2009 to $47,348,827 by December 31, 2010. The 13-month average AMI plant in service for the test year is $38,615,913. The test year indicates a revenue deficiency of $2,358,085 for the Idaho jurisdiction. App., Waites Testimony Exh. 3. In its calculations, the Company is reflecting the new investment in AMI and the depreciated metering plant replaced by AMI. The Company's calculations also reflect the expenses of accelerated depreciation of the preexisting metering plant, the reduced O&M expenses due to operating efficiencies that are gained from the AMI deployment, and incremental tax impacts. Waites Testimony, p. 4.

Idaho Power contends the proposed test year and recovery of the resulting revenue requirement is a necessary component to allow it to continue moving forward with its three-year AMI deployment. The Company cites increased challenges associated with raising capital in the financial markets during the present financial crisis, as well as the Company's competing needs for capital investment in other system resources. The Company represents that its proposal is consistent with its request for a Certificate "to rate base the prudent capital costs of deploying AMI as it is placed in service," (Case No. IPC-E-08-16, App., p. 11), and the Commission's prior authorization of 2009 AMI investment recovery ($10,497,354 or 1.83% uniform increase in rates) in Order No. 30829, Case No. IPC-E-09-07.

An average increase in Idaho jurisdictional revenue of 0.33% over base rates is needed in order to recover the $2,358,085 revenue deficiency. Idaho Power proposes recovery of its AMI investment from customers receiving AMI meters, tariff Schedules 1, 3, 4, and 5 (Residential Customers), Schedule 7 (Small General Service), Schedule 9 (Large General Service – Secondary), Schedule 24 (Agricultural Irrigation Service – Secondary), Schedule 41 (Street Lighting Service – Metered), and Schedule 42 (Control Traffic Signal Lighting Service) effective June 1, 2010, for service provided on and after that date. App., Atch. 1; Atch. 3 (proposed revenue requirement spread). The average increase over base rates for the affected rate schedules is 0.41%. Waites Testimony, p. 13. To maintain relationships between the rate components, the Company is proposing to spread the revenue requirement uniformly across all charges of each affected customer class with the exception of Schedules 1, 3, 4, 5 and 7 in which the Company is proposing to spread the revenue requirement uniformly across only the energy charges.

On April 6, 2010, the Commission issued Notices of Application and Modified Procedure in Case No. IPC-E-10-06. The deadline for filing written comments or protests was May 6, 2010. Comments were filed by Commission Staff and a number of the Company's customers. On May 13, 2010, the Company filed Reply Comments. The comments can be summarized as follows:

Customer Comments

Most customers submitting comments in this case oppose the Company's Application. There is only limited support. The following is a representative sampling of the comments submitted:

- Smart metering technology should be funded by the Company, not the consumer. . . . I find it ironic that Idaho Power openly encourages energy conservation and efficiency improvements by its customers, then expects to be reimbursed for the revenues lost in the process.

- The Company is attempting to lower its business costs by automating work and eliminating worker's duties. AMI investment should be paid for by the savings in costs to its employees.

- The rate increase being requested is not appropriate at this time of financial stress.

- I have looked at this supposedly "smart meter" and all I have ever seen is a constant number that is there all the time no matter what appliance is running. With the old wheel I might not have a number but I could have an idea if the appliance was using a whole lot, moderate or little amounts by the speed. This thing tells me nothing at all.

- I'm deprived of the right to vote with my feet to shop around and purchase my electricity elsewhere. Shouldn't these expenses be coming out of stockholder dividends?

- I support the smart meters if they will, in fact, increase efficiency.

- In every business I know, when you upgrade, you have to stand the cost yourself.

- How can this Company keep raising rates?

- Enough is enough. It's getting out of hand. You need to deny this increase. We're in tough times now.

- I think that the service charge for meter reading should be eliminated when smart meters are installed.

- The cost savings should pay for the cost of the new meters and not be borne by the ratepayers.

- It's time that the Company hold the line. I know this is a waste of time but I want to have my say. Many feel the same way but won't speak up, as it is a useless exercise. Sincerely disgusted with the greed.

Staff Comments

AMI Investment

Staff in its filed comments recommended that the Commission approve an increase of $1,926,523 in the Company's annual revenue requirement for the test year ending December 31, 2010, effective June 1, 2010, an amount $431,562 less than requested by the Company. The difference in proposed recovery amounts as calculated by Staff was based on its belief that the Company's revenue deficiency calculation understated the operation and maintenance (O&M) benefits and efficiencies attributed to AMI.[1] Staff Comments Atch. A.

Consistent with the methodology approved in Order No. 30829, the Company, Staff notes, used a forecasted test year ending December 31, 2010. The total investment associated with the installation of AMI, which includes IT expenditures, meter and installation costs, and station equipment expenses, through year-end 2010 is projected to be $47,348,827. This total is approximately $3.5 million higher than the Company's original commitment estimate, Staff states, and can be attributed to the Company running slightly ahead of schedule and equipment orders arriving early. *See* Waites Testimony, p. 6. Staff is not concerned with the overage at this point because it does not appear that it will increase the overall cost of the AMI deployment, and the Company is committed to absorbing any extra capital costs above the original Commitment Estimate approved in Order No. 30726.[2]

The Company, Staff notes, continues to accelerate the depreciation on the preexisting metering equipment over a three-year period. The accelerated depreciation included for 2010 is $10,551,216. Waites Testimony, p. 9. This amount is $2,586,193 higher than the annualized accelerated depreciation included in the IPC-E-09-07 case. The difference, Staff contends, is attributed to an understatement of the plant value of the existing metering equipment on May 31,

[1] The Company in reply comments represented that the quantification of O&M benefits by Staff was the result of an initial mischaracterization on the Company's part of incremental savings and cumulative savings. The Commission is informed that Staff accepts the Company's explanation and concurs in the Company's AMI O&M benefit calculations.

[2] The original Commitment Estimate of $70.9 million approved in Order No. 30726 is subject to revision for documented, legally-required equipment changes and material changes in assumed escalation or growth rates not foreseen at the time of the Application.

2009, because the Company did not include the impacts of the reserve balance in the 2009 estimate. Staff states it has discussed this oversight with the Company and agrees that the reserve balance should be reflected in the net balance of the existing metering equipment subject to accelerated depreciation. A net plant value of $31,653,649 results in a 36-month straight line depreciation rate of $879,268 per month, or an annualized rate of $10,551,216, which the Company included in its calculation of revenue deficiency in the current case. Waites Testimony, p. 8.

The projected O&M benefits to be received during 2010 from the installation of AMI are $3,150,708. Waites Testimony, Exh. 4. This amount consists of $1,444,116 of estimated actual savings that reduce the current rate recovery, and $1,706,592 of avoided rate increases. Though the avoided rate increases, Staff contends, are difficult to verify, deployment of AMI, it states, has still created actual reductions in O&M Expenses due to operating efficiencies. The Company claims that customers received benefits of $262,827 in 2009, which Staff agrees is correct. The Company, Staff states, then reduces the 2010 benefits by that amount. With the Company's reply explanation, Staff agrees with the proposed benefit reduction.

Staff believes that Idaho Power also experiences additional efficiency benefits as AMI is implemented. Staff is not confident that these benefits can be adequately reflected in the revenue requirement change until a general rate case when all expense categories are reflected. The O&M benefits listed by Company witness Waites, Staff states, are the same projected benefits that the Company filed in Case No. IPC-E-08-16 when the Company first applied for the Certificate of Public Convenience and Necessity. The Company, Staff contends, has not updated the benefits of AMI since the deployment began and relies on the projections created prior to the installation of a single AMI meter. When the Company files for its next general rate increase, Staff believes many of these benefits will be captured and will be more accurately reflected in the resulting revenue requirement.

Rate Design

Staff reviewed the Company's methodology for AMI cost recovery, which allocates the revenue requirement to each class based on their relative Base Revenue. The Base Revenue of affected classes pursuant to Staff concurrence with the Company's reply comments will increase 0.41% to recover the $2,358,085 revenue deficiency from the deployment of AMI. Staff agrees with this methodology. Staff Comments, Atch. B.

In the first year AMI rate recovery case (IPC-E-09-07), the revenue requirement, Staff notes, was spread across the energy charges for all affected classes. In this case, the Company proposes to spread the revenue requirement across the energy charges for Schedules 1, 3, 4, 5, 7, 41, and 42. However, in addition to the energy charge, the Company proposes to spread the revenue requirement across service and demand charge for Schedules 9 – secondary and 24 – secondary. The Company informs Staff that its proposal to spread the revenue requirement for AMI in this case was a policy decision made to align methodologies between all filings the Company made with the [Commission] requesting a June 1 effective date. The other three filings that have the same proposed effective date and incorporate the same proposed rate design are IPC-E-09-30, the Accounting Order to amortize deferred tax credits and approve Stipulation; IPC-E-10-08, the Company's Application to increase its rates due to its 2010 cash contribution to defined benefit pension expense; and IPC-E-10-12, the Company's Application to implement its yearly Power Cost Adjustment (PCA).

According to Idaho Power, the revenue requirement in this case should be spread to customer classes and rate components in the same manner as the base rate revenue requirement increase approved in Case No. IPC-E-09-30. Spreading the revenue requirement to the various classes on this basis, Staff agrees, is consistent with the class revenue spread approved by the Commission in the first year AMI rate recovery case and is supported by Staff.

Staff also supports the Company's proposal to increase the rate components in the various affected rate classes. The approved Stipulation in IPC-E-09-30 specified that customer charges would not increase in the residential and small commercial classes. Staff agrees that the customer charges for these classes should not be increased in this case also. However, the proposed uniform increase in Schedule 9 and 24 rate components is consistent with the previously approved Stipulation and is justified because AMI costs are not driven by energy consumption alone. Staff will further evaluate both cost allocation to customer classes and the proper derivation of rate components as part of the next Idaho Power Company general rate case.

Idaho Power Reply Comments

Idaho Power notes that Staff in its filed comments recommended a proposed increase of $1,926,523, which is $431,562 less than that requested by the Company. Staff's recommendation, the Company states, is the result of its belief that the Company's calculation of the revenue deficiency understates the O&M benefits and efficiencies attributable to the AMI investment. The difference between the Company's quantification of the O&M benefits used in the revenue deficiency calculation for the 2010 test year and Staff's quantification of the O&M benefits, the Company contends, appears to be due to an initial mischaracterization on the Company's part of incremental savings and cumulative savings which lead to a misunderstanding on the part of the Staff of what is being represented in the O&M benefits amounts.

It was not until the preparation of the Company's current Application for authority to increase rates due to the inclusion of AMI investment in rate base based on a 2010 test year (Case No. IPC-E-10-07), the second year of the three-year deployment period, that the Company states it discovered that the O&M benefits in the initial Certificate case, Case No. IPC-E-08-16 had been incorrectly characterized as incremental savings rather than correctly characterized cumulative savings. The numbers and the calculations, the Company contends, are correct and do not change, even between Staff's recommendation and the Company's request. The only difference is the mischaracterization of those numbers as incremental numbers rather than cumulative. [See Order, page 4, footnote 1 – Staff accepts the Company's explanation and concurs in the Company's AMI O&M benefit calculations.]

To calculate the expected O&M benefits, the Company states it compared O&M costs assuming business as usual (no AMI installation) to expected O&M costs with AMI in place for each of the three years of the deployment period. This resulted in an expected O&M savings per year. The O&M benefits identified for the three-year deployment period, shown in Company witness Courtney Waites' Exhibit No.4 to the Certificate case (Case No. IPC-E-08-16), identified savings of $262,828 in 2009, savings of $3,150,708 in 2010, and savings of $5,570,400 in 2011.

Staff, the Company notes, expressed concerns with the Company's O&M benefits quantification stating that "Staff is not confident that these benefits can be adequately reflected in the revenue requirement change until a general rate case when all expenses categories are reflected" and that "the Company has not updated the benefits of AMI since deployment began and relies on the projections created prior to the installation of a single AMI meter." In response, the Company states just as Idaho Power tracks its expenses in new AMI investment and has provided this information to Staff in production request responses, it has tracked its actual O&M

savings experienced in 2009. The Company states that it realized savings of $273,146 in 2009 – very close to the projected savings quantified prior to the installation of a single AMI meter.

COMMISSION FINDINGS

The Commission has reviewed and considered the filings of record in Case No. IPC-E-10-06 including the Company's Application and accompanying workpapers and testimony. We have also reviewed the submitted comments and recommendations of customers and Commission Staff, and the reply comments of Idaho Power.

In 2009, we authorized the Company to recover the costs of installing AMI throughout its service territory, specifically including the corresponding operation and maintenance benefits as they occur. Order No. 30726, p. 10. The instant Application is the Company's request to recover those costs.

Idaho Power's increase in rate base from the AMI deployment, the accelerated depreciation of existing metering equipment, and the inclusion of net O&M expenses related to the AMI deployment create a revenue deficiency of $2,358,085, which is an average increase in Idaho jurisdictional revenue of 0.33% over base rates. Waites Testimony, p. 12. Because the Company proposes that this revenue be collected only from those customer classes receiving the AMI meters, a 0.41% uniform increase over base rates is requested. Staff concurs and recommends that the Company's Application be approved. We find the Company's Application request to be supported by the record developed in this case and find it reasonable to approve the proposed increase in rates.

As we did in 2009 when we granted Idaho Power a Certificate to install AMI technology, we continue to find that both present and future public convenience will be served through the enhanced outage management and billing accuracy, as well as reduced operating and maintenance expenses, offered by the introduction of AMI technology throughout the Company's service territory. We also continue to believe that the deployment of AMI technology will provide an essential platform for time-of-use pricing and other "smart grid" operations. As reflected in the Company's notice to customers in this case, "customers with smart meters currently have detailed access to their usage, and will eventually be able to become more energy aware and save money by adjusting their usage to take advantage of lower price periods if time-of-use rates are implemented for all customers. Smart meters also will allow more customers to participate in more demand-side management programs, such as the [Company's] A/C Cool Credit air conditioner cycling program."

We note customers' concerns in this case and remind the Company, as we did before, that in the current economic climate its fiscal responsibility will be reviewed extensively and continually. As reflected in Idaho Power's reply comments, just as the Company tracks its expenses in new AMI investment, it also tracks its actual O&M savings. Implementation of AMI, we find, will inevitably benefit customers and lower the pressure for increased rates.

CONCLUSIONS OF LAW

The Commission has jurisdiction and authority over Idaho Power Company, an electric utility, and the issues raised in Case No. IPC-E-10-06 pursuant to Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby approve Idaho Power's Application in Case No. IPC-E-10-06 and authorizes the proposed 0.41% average increase in base rates for identified class schedules for a June 1, 2010 effective date. Tariffs conforming with our Order were filed by the Company as Attachment 1 to its Application for identified class schedules.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of May 2010.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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