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IDAHO PUBLIC
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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-10-6** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission (Commission), by and through its attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on April 6, 2010 in Case No. IPC-E-10-6, submits the following comments.

APPLICATION

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% uniform increase in rates due to the inclusion of Advanced Metering Infrastructure (AMI) investment in rate base. The Company's filing is accompanied by workpapers and supporting testimony.

The proposed increase in rates requested by Idaho Power is the result of including the Company's investment in AMI for a 2010 test year into the Company's rate base/revenue requirement. 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 pre-existing metering plant, the reduced O&M expenses due to operating efficiencies that are gained from the AMI deployment, and incremental tax impacts.

As reflected in the Company's filing, its investment associated with the installation of AMI grew 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 Company's test year data indicates a revenue deficiency of $2,358,085 for the Idaho jurisdiction.

Idaho Power proposes a uniform percentage increase of 0.41% to base revenues for 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.

Given the 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 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 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, Application, 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.

STAFF ANALYSIS

Staff has reviewed the Company's Application, the testimony of Ms. Courtney Waites and accompanying exhibits along with prior information on record from prior cases and Orders issued by this Commission. Staff and the Commission have long been supportive of the Company's efforts to deploy AMI throughout its service territory, recognizing the benefits of reduced meter reading expenses and providing a solid platform for other efficiency pricing structures. Following a thorough review, Staff supports the Company's request to increase its rates effective June 1, 2010 due to the inclusion of Advanced Metering Infrastructure investment in rate base. However, Staff proposes an increase of $1,926,523 or 0.27%, which is $431,562 less than requested by the Company. The difference is because Staff believes the Company's revenue deficiency calculation understates the O&M benefits and efficiencies attributable to the Advanced Metering Infrastructure. Staff's calculated revenue deficiency is shown on Attachment A.

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 its investment in AMI based on a 2009 test year, as opposed to a completely forecasted test year ending May 31, 2010.

Consistent with the methodology approved in Order No. 30829, the Company 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 $48,348,827. This total is approximately $3.5 million higher than the Company's original commitment estimate and can be attributed to the Company running slightly ahead of schedule and equipment orders arriving early. 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.[1]

The Company continues to accelerate the depreciation on the pre-existing metering equipment over a three-year period. The accelerated depreciation included for 2010 is $10,551,216. This amount is $2,586,193 higher than the annualized accelerated depreciation included in the IPC-E-09-07 case. The difference is attributed to an understatement of the plant value of the existing metering equipment on May 31, 2009, because the Company did not include the impacts of the reserve balance in the 2009 estimate. Staff 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

[1] 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.

$10,551,216, which the Company included in its calculation of revenue deficiency in the current case.

The projected O&M benefits to be received during 2010 from the installation of AMI are $3,150,708. 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 are difficult to verify, deployment of AMI 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 is correct, and then reduces the 2010 benefits by that amount. Because the listed benefits to O&M on the Company's Exhibit No. 2 are not cumulative, Staff does not agree with the benefit reduction. The benefits listed in 2009 were received in 2009, and the amounts for 2010 are independent of any previous benefits and do not include amounts for 2009. Had the Company listed the accumulation of ongoing benefits from one month to the next on Exhibit No. 2, the benefits listed for each month would increase over the previous month. Since this does not occur, the amounts listed on Company Exhibit No. 2 for benefits to be received in 2010 do not include any benefits already received in 2009. 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 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 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, many of these benefits will be captured and will be more accurately reflected in the resulting revenue requirement. Therefore, Staff recalculated the Company's revenue deficiency using the actual O&M benefits received in 2010.

Staff's proposed 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 $1,926,523, which is an average increase in Idaho jurisdictional revenue of 0.27 percent. Because this revenue is only being applied to those customer classes receiving the AMI meters, the actual increase to those customer classes is greater, as discussed in further detail below.

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 affected classes are Schedule 1 – Residential Class, Schedule 3 – Master Metered Mobile Home Park, Schedule 4 – Residential Energy Watch Program, Schedule 5 – Residential Time of Day Program, Schedule 7 – Small General Service, Schedule 9s – Large General Secondary Service, Schedule 24s – Agricultural Secondary Service, Schedule 41 – Street Lighting Service, and Schedule 42 – Traffic Control Signal Lighting Service. The Base Revenue of each class will increase 0.33 percent to recover the $1,926,523 revenue deficiency from the deployment of AMI. Staff agrees with this methodology to spread the AMI revenue requirement uniformly using the base revenue of each class. Staff and Company proposed revenue spread is shown on Attachment B.

In the first year AMI rate recovery case (IPC-E-09-07), the revenue requirement was spread across the energy charges for all affected classes. In this case, the Company proposed 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 proposed to spread the revenue requirement across service and demand charge for Schedules 9 – secondary and 24 – secondary. From the Company's response to Staff Production Request No. 5, the "proposal to spread the revenue requirement for AMI 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 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 Rate due to its 2010 Cash Contribution to Defined Benefit Pension Expense and IPC-E-10-12, the Company's Application to Implement Power Cost Adjustment (PCA) Rates.

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 revenue requirement to the various classes on this basis is consistent with the class revenue spread approved by the Commission in the first year AMI rate recovery case and is supported by Staff in this case.

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. Staff and Company-proposed rate components increase as shown on Attachment C.

CONSUMER ISSUES

Customer Notice & Press Release

The Press Release and Customer Notice were included in Idaho Power's Application. The Application was received on March 16, 2010. The Customer Notices were provided to customers in bill statements from March 23 to April 21.

Customer Comments

As of April 29, 2010, fourteen (14) Idaho Power customers had submitted comments regarding the proposed increase in rates due to the inclusion of Advanced Metering Infrastructure investment in rate base. Thirteen comments oppose any increase in rates and one comment was in favor of the Company's proposal. While Staff is also concerned about the resulting rate increase in this case, we believe that the overall increase will be less than it otherwise would have been without AMI and will ultimately provide customers with tools to better control energy consumption.

RECOMMENDATION

After a review of the filing and additional information provided by the Company, Staff recommends that the Commission approve an increase of $1,926,523 to Idaho Power's annual revenue requirement for the test year ending December 31, 2010 effective June 1, 2010. Staff recommends a 0.33 percent base revenue increase for each affected customer class spread to rate components as proposed by the Company.

Respectfully submitted this 6th day of May 2010.

Scott Woodbury
Deputy Attorney General

Technical Staff: Donn English
Daniel Klein
T.J. Golo

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Idaho Power Company
Summary of Revenue Requirement
2010 Test Year

	RATE BASE		AMI Idaho
	Electric Plant in Service:		
1	Intangible Plant	$	586,742
2	Production Plant	$	-
3	Transmission Plant	$	-
4	Distribution Plant	$	24,894,976
5	General Plant	$	-
6	Total Electric Plant in Service	$	25,481,718
7	Less: Accumulated Depreciation	$	13,161,203
8	Less: Amortization of Other Plant	$	17,650
9	Net Electric Plant in Service	$	12,302,865
10	Less: Customer Adv for Construction	$	-
11	Less: Accum Deferred Income Taxes	$	1,061,047
12	Add: Plant Held for Future Use	$	-
13	Add: Working Capital	$	-
14	Add: Conservation - Other Deferred Prograrr	$	-
15	Add: Subsidiary Rate Base	$	-
16	**TOTAL COMBINED RATE BASE**	**$**	**11,241,818**

	NET INCOME	Idaho
	Operating Revenues:	
17	Sales Revenues	0
18	Other Operating Revenues	0
19	Total Operating Revenues	0
	Operating Expenses:	
21	Operation & Maintenance Expenses	(1,444,116)
22	Depreciation Expenses	2,809,801
23	Amortization of Limited Term Plant	209,784
24	Taxes Other Than Income	0
	Regulatory Debits/Credits	0
25	Provision For Deferred Income Taxes	49,673
26	Investment Tax Credit Adjustment	(283,700)
27	Federal Income Taxes	(472,876)
28	State Income Taxes	(629,146)
29	Total Operating Expenses	239,420
30	Operating Income	(239,420)
31	Add: IERCO Operating Income	0
32	**Consolidated Operating Income**	**(239,420)**
33	Rate of Return as filed	-2.13%
34	Proposed Rate of Return	8.307%
	Earnings Deficiency	1,173,278
	Add: Construction Work in Progress	0
35	Earnings Deficiency w/CWIP	1,173,278
36	Net-to-Gross Tax Multiplier	1.642
37	**Revenue Deficiency**	**1,926,523**
38	Firm Jurisdictional Revenue	705,392,731
39	**REVENUE REQUIREMENT**	**707,319,254**
40	**Percentage Increase Required**	**0.27%**

Attachment A
Case No. IPC-E-10-6
Staff Comments
5/6/10

IPUC Staff
Calculation of Base Revenue Increase
State of Idaho
AMI Investment in Rate Base Case No. IPC-E-10-06

Line No	Tariff Description	Rate Sch. No.	3/15/10 Base Revenue	IPC Proposed Revenue Adjustments	IPC Percent Change over Base Revenue	Staff Base Revenue Adjustment	Staff Percent Change over Base Revenue
	Uniform Tariff Rates:						
1	Residential Service	1	$329,209,922	1,338,386	0.41%	$1,093,443	0.33%
2	Master Metered Mobile Home Park	3	306,335	1,245	0.41%	$1,017	0.33%
3	Residential Service Energy Watch	4	52,976	215	0.41%	176	0.33%
4	Residential Service Time-of-Day	5	77,727	316	0.41%	258	0.33%
5	Small General Service	7	13,724,200	55,795	0.41%	45,584	0.33%
6	Large General Service	9s	148,787,258	604,887	0.41%	494,184	0.33%
7	Agricultural Irrigation Service	24s	87,559,065	355,967	0.41%	290,820	0.33%
8	Street Lighting	41	152,919	622	0.41%	508	0.33%
9	Traffic Control Lighting	42	160,167	651	0.41%	532	0.33%
10	*Total Revenue*		580,030,569	2,358,085		$1,926,523	

Note: Proposed Adjustments are based on period Jan. 1 - Dec. 31, 2010

IPUC Staff
Rate Increase Summary by Customer Class
State of Idaho
AMI Investment in Rate Base Case No. IPC-E-10-06

	IPC Proposed Rate Increase	Staff Proposed Rate Increase
Schedule 1		
Energy Charge, per kWh		
Summer		
First 800 kWh	0.43%	0.35%
801-2000 kWh	0.43%	0.35%
All Additional kWh Over 2000	0.43%	0.35%
Non-summer		
First 800 kWh	0.43%	0.35%
801-2000 kWh	0.43%	0.35%
All Additional kWh Over 2000	0.43%	0.35%
Schedule 3		
Energy Charge, per kWh		
all kWh	0.41%	0.33%
Schedule 4		
Energy Charge, per kWh		
Summer		
All other hours	0.41%	0.35%
Non-summer		
First 800 kWh	0.43%	0.35%
801-2000 kWh	0.43%	0.35%
All Additional kWh Over 2000	0.43%	0.35%
Schedule 5		
Energy Charge, per kWh		
Summer		
On-Peak	0.41%	0.35%
Mid-Peak	0.41%	0.35%
Off-Peak	0.41%	0.35%
Non-summer		
First 800 kWh	0.43%	0.35%
801-2000 kWh	0.43%	0.35%
All Additional kWh Over 2000	0.43%	0.35%
Schedule 7		
Energy Charge, per kWh		
Summer		
First 300 kWh	0.45%	0.37%
All Additional kWh	0.45%	0.37%
Non-summer		
First 300 kWh	0.45%	0.37%
All Additional kWh	0.45%	0.37%

IPUC Staff
Rate Increase Summary by Customer Class
State of Idaho
AMI Investment in Rate Base Case No. IPC-E-10-06

	IPC Proposed Rate Increase	Staff Proposed Rate Increase
Schedule 9s		
Service Charge, per month		
Summer and Non-Summer	0.40%	0.32%
Demand Charge, per kW fo Billing Demand		
Summer		
First 20 kW	0.00%	0.00%
All Additional kW	0.25%	0.25%
Non-summer		
First 20 kW	0.00%	0.00%
All Additional kW	0.31%	0.31%
Energy Charge, per kWh		
Summer		
First 2,000 kWh	0.43%	0.36%
All Additional kWh	0.45%	0.35%
Non-summer		
First 2,000 kWh	0.43%	0.35%
All Additional kWh	0.45%	0.34%
Schedule 24s		
Service Charge, per month		
In-Season	0.32%	0.32%
Out-of-Season	0.00%	0.00%
Demand Charge, per kW fo Billing Demand		
In-Season	0.41%	0.41%
Out-of-Season	0.00%	0.00%
Energy Charge		
In-Season		
First 164 kWh per kW of Demand	0.41%	0.33%
All Other kWh per kW of Demand	0.41%	0.33%
Out-of-Season		
All kWh	0.42%	0.34%
Schedule 41		
Energy Charge, per kWh		
Metered Service (w/ Maintenance), per lamp	0.45%	0.37%
Metered Energy-Only Service (No Maintenance)	0.45%	0.37%
Schedule 42		
Energy Charge, per kWh	0.41%	0.33%

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF MAY 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-10-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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