

From: Ron Williams
Sent: Thursday, June 4, 2020 10:16 AM
To: Walker, Donovan; Carlock, Terri
Cc: Allison Marks; 'Bradley G. Mullins (brmullins@mwanalytics.com)'; Ron Williams
Subject: Blaine County

June 4, 2020

Donovan Walker
Lead Counsel
Idaho Power Company

Donovan,

During the recent conference call involving representatives of Blaine County (BC), Idaho Power Company (IPC) and Idaho PUC Staff (Staff), BC discussed several initial proposals or ideas regarding undergrounding IPC's transmission facilities from the Wood River Substation just north of Hailey to Elkhorn Road, just south of Ketchum (Transmission Line).

As of August 15, 2019, IPC estimated the total cost for an underground transmission project to be \$67,991,516. Of that amount, IPC estimated the incremental cost of undergrounding to be \$32,889,228 ("Cost Differential"). In previous correspondence with BC and Staff, IPC has requested BC pay a Contribution in Aid of Construction ("CIAC") of \$38,151,504 to finance the Cost Differential, including \$5,262,276 in tax gross-up. IPC was willing to allow BC to pay the CIAC over time, with interest charged to BC at IPC's pre-tax Rate of Return.

Since BC would not own the transmission line, BC cannot issue secured bonds to cover the proposed \$38,151,504 CIAC payment. Further, BC has investigated revenue financing through the development of a Local Improvement District (LID) and has found that such an option is also not feasible. A potential LID would only include the properties of unincorporated lands, and by statute, must exclude all properties 5 acres or greater. Accordingly, the LID financing alternative would be too burdensome on too few properties, whose owners receive no greater benefit from the underground Transmission Line than any other property excluded from the restrictive LID definition.

Idaho PUC Order No. 33872 directed parties to "continue to work together" to resolve underground Transmission Line funding issues and disputes, "as there may still be opportunities to find areas of common interest and common ground." In our May 28, 2019 meeting, we discussed the following straw proposals, which reduce the 100% underground Cost Differential assigned to BC customers, reduce the interest carrying charge and spread the base of payors beyond the few property owners of an LID. These proposals were made by BC to IPC in an attempt to find that common ground.

1. *Tariff Rider Surcharge:* The Cost Differential will be recovered on a uniform cents-per-kWh basis to Blaine County customers through an IPC tariff rider. The final Cost Differential amounts included in the tariff rider will be reviewed in a subsequent IPC general rate case, when the Transmission Line costs are known and approved in base rates. The tariff rider will be applied to all electric service customers taking service within Blaine County, or to a specific geographic subset of BC as determined by the BC Commission. The Cost Differential will become a regulatory asset of IPC and the amortization period of

the tariff surcharge will be negotiated and agreed to by BC, IPC and Staff. Interest on the regulatory asset will be at IPC's incremental cost of debt, estimated at 3.7%. IPC would have available to it 100% debt financing of the \$68 million line through the Idaho Energy Resources Authority (IERA) at an interest rate expected to be at or close to IPC's cost of debt estimate. Alternatively, the parties would investigate if it could debt finance through the IERA on a tax exempt interest basis, because of the involvement of BC in the financing. Use of a tariff surcharge would avoid the \$5 million tax gross-up charged to BC through CIAC financing.

2. *OATT Revenue Credit:* When calculating its formula Open Access Transmission Tariff ("OATT") rates, IPC will classify the entirety of the Transmission Line costs, including the Cost Differential amounts, as a network resource, not just the portion of the investment represented by the overhead line option. Therefore, the Cost Differential assigned to BC customers will also include a credit for the incremental OATT wheeling revenues attributable to the Cost Differential amount and included in OATT formula rates. The revenue credit will equal the percentage of the IPC transmission network used by wholesale customers multiplied by the annual OATT revenue requirement attributable to the Cost Differential.

While some may initially view the use of this particular transmission segment as not currently being used as heavily as other portions of IPC's transmission system for wholesale transactions -- therefore justifying 100% situs assignment to BC -- the same could be said for other elements of IPC's cost of service and the assignment of other 'uniform' costs to IPC customers in the Wood River Valley. For example, as pointed out by IPC's answer to BC's Data Request No. 5, BC's winter peak is more than twice its summer peak, yet IPC's system peaks in the summer and much of IPC's costs are allocated or weighted based on that summer peak. In that regard, BC customers of IPC are already significantly subsidizing other IPC customers and customer classes with respect to the system cost of energy and capacity. The point is that once we go down the road of assigning some costs on a system basis and other costs on a situs basis, how far down that road do we go?

3. *Wildfire Mitigation Credit:* The parties would investigate the potential wildfire cost savings that would result in the Transmission Line being placed underground, taking into account wildfire cost savings to IPC, BC, BC residents, BC businesses and other local, state and federal agencies and landowners in BC. The expected wildfire cost savings agreed to by the parties will be present valued and credited against the Cost Differential revenue requirement assigned to BC customers.

4. *Ratebase/Ratemaking Adjustments:* In the future rate case when the Transmission Line is approved to be included in base rates, BC and Staff will review the actual Cost Differential amount, including the methodology used to calculate the Cost Differential. This will include, among other things, a review of the final incremental rate base balances associated with undergrounding, appropriate reserve balances for accumulated depreciation, and the rate base impacts of deferred income taxes.

We appreciate the opportunity to provide this straw proposal and look forward to future discussions with IPC and Staff on this matter. The Blain County Commission has found that helping preserve the scenic Wood River Valley, through the undergrounding of the Transmission Line, is necessary to maintain the economy, well-being, and safety of its BC residents. We are hopeful to reach a common ground that will allow BC to maintain these objectives.

Ron Williams

Williams Bradbury, P.C.

P.O. Box 388	Street Address
Boise, ID 83701	802 W. Bannock St.
Office: 208.344.6633	Suite LP 100
Mobile: 208.890.4620	Boise, ID 83712

cc: Terri Carlock, IPUC Staff

This e-mail message from the law firm of Williams Bradbury, P.C. is intended only for named recipients. It contains information that may be confidential, privileged, attorney work product, or otherwise exempt from disclosure under applicable law. If you have received this message in error, are not a named recipient, or are not the employee or agent responsible for delivering this message to a named recipient, be advised that any review, disclosure, use, dissemination, distribution, or reproduction of this message or its contents is strictly prohibited. Please notify us immediately at 208.344.6600 if you have received this message in error, and delete the message.