

ATLANTA POWER COMPANY INC.  
11140 CHICKEN DINNER ROAD  
CALDWELL, IDAHO 83406

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June 11, 2008

Idaho Public Utilities Commission  
P.O. Box 82720  
Boise, Idaho 83720-0074

ATL-E-08-02

ATTENTION COMMISSION SECRETARY AND HEAD LEGAL SECRETARY

Enclosed is an original and seven (7) copies of Applicant's reply to the comments of the Idaho Public Utilities Commission Staff filed in this case on June 5, 2008

Sincerely,



Israel Ray  
President

Israel Ray  
Atlanta Power Company, Inc.  
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Representative for Atlanta Power Company, Inc.

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IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
ATLANTA POWER COMPANY )  
FOR AN ORDER AUTHORIZING INCREASES IN )  
THE COMPANY'S RATES AND CHARGES FOR )  
ELECTRIC SERVICE IN THE STATE OF IDAHO )**

**CASE NO. ATL-E-08-2**

**REPLY TO  
STAFF COMMENTS**

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COMES NOW Atlanta Power Company Inc., ("Atlanta Power", "Applicant" or "Company") and hereby files the following reply to the Comments of the Idaho Public Utilities Commission Staff (Staff).

1. Staff at page 3 of its comments recommends that the Commission not recognize the actual interest rate of fourteen percent (14%) the Company is paying on a seven (7) year \$100,000 note. Staff instead recommends an interest rate of twelve percent (12%) arguing that this is a more reasonable rate and is equivalent to the return on equity rate the Commission has allowed other small utility companies. Applicant does not agree that the owners should subsidize the carrying costs of this note. The circumstances that gave rise to the need to borrow these funds were extraordinary and unexpected. Applicant was unable to acquire loan funds at a more reasonable rate. This note adversely affects the Company's already poor cash flow requirements. The Company proposes that the Commission accept the real carrying costs of this note for the

purpose of establishing a temporary emergency surcharge so the Company can meet its loan repayment obligations without additional capital infusion by owners. Should the Commission determine through its investigation of the remainder of this case that this note was imprudent; any temporary over-collection determined by the Commission can be refunded by adjustment to rates determined by the Commission in its final order in this case.

2. Staff at page 4 of its comments takes exception to the recovery of a one year \$10,000 note through a one year surcharge to customers. Staff instead recommends the recovery of this note over a longer seven (7) year surcharge period. Applicant is willing to accept the Staff proposal on this issue as a compromise. Owners of the Company have already subsidized the carrying costs of this loan for a period of approximately 6 months at \$833.00 per month or approximately \$5,000.00.
  
3. Staff at page 4 recommends the exclusion of \$18,808, owed by the Company to its owner, from its recommended surcharge calculations. Staff argues that deferred owner wages and the appropriate treatment of an owner's loan for ratemaking purposes have not been established in this case. The Staff does not dispute the existence of these loaned amounts. Staff relies on the Commission's Order No. 30511 (Case No. ATL-E-08-1) that ordered that the Company's owners be solely responsible for payment of any portion of these notes that are disallowed in a future rate proceeding. Staff further argues that excluding the owner loans from the temporary emergency surcharge prevents the potential recovery of disallowed costs during the general rate case review. Later on page 5 of its comments, Staff states "*...Staff recommends that the prudence of these extraordinary expenditures be determined contemporaneously with the review of the Company's costs and records supporting its request for a*

*general base rate increase. Staff recommends that the issue of a surcharge, its amount and treatment be revisited at that time.”*

Staff recognizes, as does the Applicant, that any surcharge granted in this case is subject to adjustment by the Commission during the course of the Commission's investigation. Disallowing recognition of funds loaned to the Company by its owner unfairly deprives the owner of the recovery of his costs and adversely affects the Company's already poor cash flow. Any over recovery the Commission may ultimately determine exists can be refunded through the review and adjustment of the surcharge amounts Staff has itself recommended. Applicant opposes the Staff recommendation to exclude the owner loans from the surcharge calculations.

4. Staff at page 6 recommends that the surcharge recovery calculation be based upon the number of customer connections during the year 2007 applied to customer average use data from the year 2006. Applicant does not object to this approach. Exhibit No. 10 attached presents the results of our calculations using the Staff methodology, adjusted for the other adjustments to the Staff recommendations discussed in this reply. Exhibit No. 10 is discussed later in these comments under "Summary Recommendations".
  
5. Staff at page 6 further recommends that two customers be added to the customer base and impute revenues attributable to them in calculating the required surcharge. One is the home of employees of the Company who are full time residents of Atlanta. As part of their compensation package, their home is provided with electric power at no cost. Their home provides office space to the Company at no additional cost to the Company and provides a local phone number for customer contact. Were these employees required to pay an electric bill, their effective compensation would be reduced. A wage increase would be required to

restore their compensation resulting in increased costs on the other side of the Company's income statement.

The second customer is property used by the Company's owner for temporary housing when he is in Atlanta for Company business. The property also is the site of the standby diesel generator, has two buildings used for storage of electrical equipment, provides for parking and storage of the Company's equipment. It just doesn't make sense for the Company to charge itself electric energy rates that would simply become operating costs on the other side of the income statement.

The issue of this Company providing free electrical service to certain business related customers was extensively discussed in Idaho Public Utilities Commission Order No. 24925 in Case No. ATL-E-93-1. Four (4) page Exhibit No. 11 attached is pages 5 through 8 of that order. The Applicant opposes this Staff recommendation.

**SUMMARY RECOMMENDATION**

Applicant proposes a surcharge revenue requirement as shown in the following table similar to the table included in the Staff Comments at page 5:

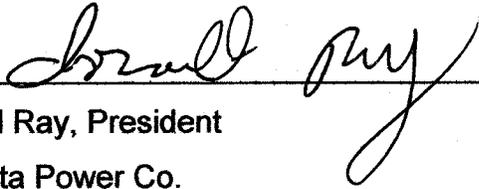
Notes/Loans	Staff Revenue Per Month	Co. Revenue Per Month
Promissory Note \$100,000	\$1,765	\$1,874
Promissory Note \$10,000	\$177	\$177
Owners Funds \$18,808	-0-	\$322
<b>Total Monthly Recovery</b>	<b>\$1,942</b>	<b>\$2,383</b>
<b>Total Annual Recovery</b>	<b>\$23,302</b>	<b>\$28,596</b>

Exhibit No. 10 attached is a one page exhibit that summarizes Applicants proposal to the Commission based upon the above discussion. Lines 1 through 4 were prepared to replicate Staff's calculations without including the "Free Electricity" to employees. This calculation produces an overall surcharge rate as shown on line 4 of 31.9%.

Lines 5 through 8 represent an attempt to replicate exactly the Staff's proposal shown on Attachment "A" to their comments. This calculation produces an overall surcharge rate of 31.26% as shown on line 8 as opposed to the rate of 31.74% proposed by Staff. The Company's discussions with Staff regarding these calculations indicate that Staff has discovered a small error in its calculations. A recalculation by Staff appears to nearly equal the results presented here.

Finally, lines 9 through 12 present the Applicants alternative surcharge recommendation incorporating the Staff recommendations accepted by Applicant as discussed above. This calculation produces a surcharge requirement of 39.15% as compared to the Company's original request of 54.2% and Staff's recommended 31.74%.

Respectfully submitted this 11th day of June 2008.

  
\_\_\_\_\_  
Israel Ray, President  
Atlanta Power Co.

ATLANTA POWER COMPANY  
SURCHARGE REVENUE REQUIREMENT  
REPLY EXHIBIT TO COMMISSION STAFF COMMENTS

To Replicate Staff's Attachment "A"

Without Employee "Free Electricity"

Rate Schedule	# Cust 2007	2006 Adjusted KWh Subj to KWh Charges	Excess KWh	Adjusted Base Rate Revenue	Total Adjusted Revenue	Staff Proposed Surcharge Revenue	Percent Change
1 Permanent Residential	250	9,750	\$ 488	\$ 20,250	\$ 20,738	\$ 6,615	31.90%
2 Permanent Commercial	59	83,485	\$ 15,027	\$ 8,496	\$ 23,523	\$ 7,504	31.90%
3 Seasonal Residential	590	38,765	\$ 8,141	\$ 20,650	\$ 28,791	\$ 9,184	31.90%
4 Totals	899	132,000	\$ 23,655	\$ 49,396	\$ 73,051	\$ 23,303	31.90%

To Replicate Staff's Attachment "A"

With Employee "Free Electricity"

Rate Schedule	# Cust 2007	2006 Adjusted KWh Subj to KWh Charges	Excess KWh	Adjusted Base Rate Revenue	Total Adjusted Revenue	Staff Proposed Surcharge Revenue	Percent Change
5 Permanent Residential	262	8,646	\$ 432	\$ 21,222	\$ 21,654	\$ 6,769	31.26%
6 Permanent Commercial	59	83,485	\$ 15,027	\$ 8,496	\$ 23,523	\$ 7,353	31.26%
7 Seasonal Residential	602	39,553	\$ 8,306	\$ 21,070	\$ 29,376	\$ 9,183	31.26%
8 Totals	923	131,684	\$ 23,766	\$ 50,788	\$ 74,554	\$ 23,306	31.26%

Company Proposed Alternative

Using Staff Proposed use of 2007 customers

Rate Schedule	# Cust 2007	2006 Adjusted KWh Subj to KWh Charges	Excess KWh	Adjusted Base Rate Revenue	Total Adjusted Revenue	Company Proposed Surcharge Revenue	Percent Change
9 Permanent Residential	250	9,750	\$ 488	\$ 20,250	\$ 20,738	\$ 8,118	39.15%
10 Permanent Commercial	59	83,485	\$ 15,027	\$ 8,496	\$ 23,523	\$ 9,208	39.15%
11 Seasonal Residential	590	38,765	\$ 8,141	\$ 20,650	\$ 28,791	\$ 11,270	39.15%
12 Totals	899	132,000	\$ 23,655	\$ 49,396	\$ 73,051	\$ 28,596	39.15%

required to obtain authorization "by Order of the Commission and not otherwise" (emphasis added). I.C. 61-901. Nevertheless, based on our review of the record in this case, the Commission finds the security issuance by Atlanta Power Company to be reasonable. Our consideration of the matter in this case will suffice as the required review. Atlanta Power, however, is advised to be mindful of the required Chapter 9 compliance for future security issuances.

### "Free" Electricity

Staff's revenue requirement adjustment relating to the provision of "free" electricity to Harold Lanning was the only adjustment vigorously challenged by the Company. Tr. pp. 10, 11. The underlying agreement between Greylock Mountain Power Company (Greylock) and Harold Lanning for purchase of the utility states that Mr. Lanning is to be provided with "free electricity" to his residence for 15 years and to his shop for eight years. The obligation runs from the date of the agreement, May 11, 1984. Atlanta Power Company assumed Greylock's obligation in July 1985. The Company became regulated and was issued a Certificate of Public Convenience and Necessity by the Commission on January 22, 1986.

The Company's obligation if any, to provide free electricity to the shop expired May 1992. The Company indicates that there is no separate metering for the shop and that there are no plans to meter it. The Company estimates that the shop may use 2000 kilowatt hours per year. The Company states that the shop will be disconnected unless Mr. Lanning wants to keep the power there and pay for it. Tr. pp. 44, 45.

Staff contends that providing power without billing violates *Idaho Code* Title 61 § 315, Staff also cites *Davenport v. Idaho Metals Company*, PUCI Case F-473, Order 850, PUR 1922D 506: "contract to furnish free telephone service as part of the consideration or purchase price of the telephone system is discriminatory." Staff finds no distinction meriting different treatment for an electric utility. Tr. pp. 128, 129.

The Company's response is that had there not been an arrangement to provide free electricity, the purchase price of the facility would have been greater. This theoretically would have increased the Company's rate base and authorized return. Tr. pp. 10, 11. Providing "free" electricity was the smart thing to do, the Company argues, because there has always existed significant

excess capacity in the hydro generation system. The Company provides similar justification for providing free power to its two site employees. Tr. p. 11.

Counsel for the Company argues that for an action to be discriminatory it must constitute an unreasonable discrimination against other customers; it must impose additional costs on them. Such are not the facts in this case, however, the Company argues. In this case the alternative to providing free electricity, the Company contends, would be to impose additional costs on the other customers. Therefore, the Company concludes, "it is not unreasonable discrimination. It is not unreasonable to use that surplus capacity to cover costs that would otherwise require financing or actual cash expenditures." Tr. p. 180.

The power consumption of Mr. Lanning is not insignificant. For the 12-month period ending May 30, 1992, Mr. Lanning's metered consumption was 40,190 kilowatt hours. Tr. p. 44. The Company's total adjusted annual system sales are, by way of comparison, only 165,000 kilowatt hours per year. Tr. pp. 23, 130. With adequate river flow, it is evident, however, that the Company can generate and distribute twice the existing electrical demand. Tr. p. 145.

Regarding the providing of free power to Mr. Lanning, Staff proposed a revenue requirement adjustment of (\$2,398), the cost of which it contends should be borne by Company stockholders. Tr. p. 129. Staff provided no estimate for the actual incremental cost of generation and distribution. Tr. p. 138. Staff indicated on cross that its terminology was inaccurate and that rather than "cost", what it actually meant and what the figure reflects is "revenue lost." Tr. p. 139.

Regarding the providing of free power to Company employees, Staff recommends that rather than netting wages payable against revenue due, the Company should record gross wages and all revenue. Tr. p. 129. In response, the Company contends that if it is required to pay its employees a wage, it should be able to earn a return on it. Tr. p. 11.

Based on our analysis of the record, the Commission finds that the parties have mischaracterized the issue as being one of "free" electricity. In each instance, power is provided as compensation for something received. In the

instance of Mr. Lanning, the obligation arose as partial consideration for the underlying purchase of the hydro generation facility and distribution equipment. In the instance of the site employees, the obligation is consideration for an exchange of services.

The applicable code section reads as follows: *Idaho Code* § 61-315  
**Discrimination and Preference Prohibited:**

No public utility shall, as to rates, charges, service, facilities or in any other respect, make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, charges, service, facilities or in any other respect, either as between localities or as between classes of service. The Commission shall have the power to determine any question of fact arising under this section.

The Commission finds that the facts in this case are unique and merit special consideration and treatment. In assessing the reasonableness of the Company's actions in this matter, we place great weight on the combined existence of significant excess capacity in its hydro generation system and an incredibly small and diverse customer base. The level of investment and size of the customer base already combine to produce the highest electric rates in the State. Company efforts to keep rates affordable and yet cover expenses and earn a reasonable return on investment constitute a balancing task of Herculean proportions. The Company is attempting to satisfy its obligations in a manner that has the least adverse economic consequence to its customers. Thus, the customers are neither prejudiced nor disadvantaged. The other alternatives would all result in higher rates. Staff suggestion of imputing revenue is only one side of the equation. The related expense and/or rate base ramifications must also be considered. Based on the specific facts of this case and assuming that the power requirements of Mr. Lanning and the site employee will continue to be met with surplus hydro capacity we find such an exercise in valuation unnecessary. We therefore do not adopt Staff's proposed revenue adjustment. In reaching our decision, we recognize that the Company has almost no energy-related costs associated with hydro generation. Accordingly, the approved Company revenue requirement calculated from Staff Exhibit 101 is \$54,354, not \$51,956. The

resultant revenue deficiency is \$13,173. We approve the test year and all other Staff adjustments. Staff Exhibit 101. Should the incremental costs of providing future power and distribution to Mr. Lanning and the site employees impose identifiable costs to the Company's other customers, we will revisit this issue. We find the current situation acceptable because there are no associated costs assigned to the Company's other customers.

### **Rate Design**

Atlanta Power agrees with Staff's recommended equal percentage allocation rate design in this case and views it as being more equitable than the Company's existing rate structure. Exhibit 103, Equal Percentage Allocation Method. Tr. pp. 29-31, 89. The proposed method increases by an equal percentage the adjusted 1992 revenue from each customer class. Tr. p. 148. As Staff explains, the new rates do not mean that each customer will experience an equal percentage increase in each monthly bill. Some customers will experience a lower percentage increase and others will experience a higher percentage increase depending on their actual kilowatt hour usage. Tr. p. 148.

In calculating the recommended rates and charges for Atlanta Power Company Staff utilized an adjusted annual kWh sales figure of 167,000 kWh. Tr. p. 146. In its analysis, Staff viewed the Company as essentially a fixed cost operation; there are almost no energy related costs associated with the operation of the utility. Because of this, Staff determined that the cost allocated to each customer class should be in proportion to the amount of demand each class places on the electrical system. After looking at several alternate rate designs, Staff concluded that the method most appropriate for Atlanta Power Company was simply a uniform percentage allocation or equal percentage increase for each customer class. Tr. pp. 147-152.

### **Schedule 5, Temporary kWh Surcharge (4.5¢/kWh)**

Staff recommends that the Schedule 5 temporary 4.5¢/kWh surcharge be included in base rates. Staff reasons that this expense is similar to other expenses and should not be treated differently. The surcharge relates to a loan to Atlanta Power from the Idaho Department of Water Resources (IDWR) and the Water Resource Board in the amount of \$57,000 for installation of a hydraulic