

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

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2008 OCT -3 PM 12: 32
IDAHO PUBLIC
UTILITIES COMMISSION

October 3, 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 are an original and seven copies of Atlanta Power Company's reply to the Report and Recommendations of the Commission Staff in this case together with a Certificate of Service.

Sincerely,



Israel Ray
President

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IDAHO PUBLIC
UTILITIES COMMISSION

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

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
ATLANTA POWER COMPANY FOR AN)	CASE NO. ATL-E-08-2
ORDER AUTHORIZING INCREASES IN THE)	
COMPANY'S RATES AND CHARGES FOR)	REPLY TO
ELECTRIC SERVICE IN THE STATE OF IDAHO)	PUC STAFF REPORT
	AND RECOMMENDATIONS

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

GENERAL COMMENTS

On page 2 of its comments, Staff states "During his tenure Mr. Ray has made a substantial amount of system improvements. Some have been planned upgrades and some have been forced upon him by equipment failure or regulators such as the Federal Energy Regulatory Commission (FERC) and the U.S. Forest Service." Staff goes on to state "It is Staff's opinion that the electric system in Atlanta is in the best condition that it has been in since Atlanta Power Company was formed."

Despite these statements praising the current Atlanta Power Company management, Staff's comments on the whole are extremely critical and even punitive. Staff has on one hand congratulated the Company on improvement to the system and on the other hand slapped it down for poor record keeping. As will be addressed in the specific comments that follow, Staff has disallowed numerous items for lack of original invoices/receipts despite the existence of cancelled checks and debit card transaction records while at the same time recommending a lower return on equity as a penalty for not retaining better

REPLY TO REPORT
AND RECOMMENDATIONS
OF COMMISSION STAFF

records. Staff has made little attempt to test the reasonableness of the overall expense items or offer alternative approaches to substitute a reasonable expense level.

Staff on pages 8 and 9 state that they understand that upon receipt of Staff's report the Company may provide additional information to Staff and that Staff will review that information for possible inclusion in costs ultimately authorized by the Commission. Unfortunately, time is short for the Applicant to file its reply to Staff. The Company would have preferred to meet with Staff to discuss its "preliminary" recommendations before they were filed. However, Staff did not begin its review of this case in a timely enough manner for this to be possible. The Company stands ready and would welcome an opportunity to discuss with Staff its recommendations in this case.

Applicant is not submitting additional exhibits with these comments due to the short time frame to review Staff's comments and electronic work papers for preparation this response. Given the discussion that follows, Applicant believes it has shown that the Staff recommendations are punitive and unrealistic. Applicant stands with its Amended Application, updated for additional rate case costs, as a realistic though conservative reflection of the Company's financial position. Applicant will trust in the Commission to take due notice of these comments and exercise its expertise in these matters to reach a fair, realistic and equitable resolution to this case.

SPECIFIC REPLY COMMENTS

1. On page 6 of its comments, Staff has eliminated \$2,800.00 from its calculation of extraordinary surcharge costs that the company incurred for repair cost to a back-up generator that subsequently had to be replaced. Management made the decision at the time to incur these costs to maintain and repair the generator in an effort to minimize the Company's costs. Despite the Company's efforts to rehabilitate the generator, it did have to be replaced. Staff is penalizing the Company for its attempt at frugality. This issue is addressed again below in number 3. To Staff's credit, it has included additional interest costs up to the date of funding the extraordinary costs through the notes approved by the Commission.
2. On pages 7 and 8 of its comments, Staff states "The Atlanta Power loan is similar in many ways, except term, to a recently executed Eagle Water loan. As a comparison, a \$110,000 loan was signed in December 2007 at Index plus 2% or 9.5%. Even after taking into account the term extension, this comparable loan demonstrates that a loan at 14% is excessive. In December of 2007, the bank informed Staff that it was willing to explore similar options on a longer term with Atlanta Power." Staff indicates the bank was willing to "explore" such a loan not necessarily commit to same. The Company contacted this bank and was informed that unless the owner's credit score exceed 700, a loan was not possible. The owner and the Company did would not qualify. Atlanta Power also attempted to

negotiate a loan with its regular bank, U.S. Bank, but was refused due to the same poor financial statements and credit ratings. The only source Atlanta Power could find for a loan was the private loan available from Mr. Alberdie. Given the current turmoil in the financial markets it may prove advantages to have a fixed rate loan rather than one tied to an index.

3. On page 9 of its comments, the Staff again addressed the elimination from rate base of \$3,000.00 of repairs to a back-up generator that was subsequently replaced. (See Number 1. Above) The Company attempted to economically maintain service to the Atlanta community by making these repairs but to no avail, the generator had to be replaced. This adjustment penalizes the Company for trying to maintain service at the lowest possible cost. This cost should be included in the cost of the new generator and depreciated over its life. Note there is a partial offset to these costs in the determination of the amount of Contributions in Aid of Construction being collected through the surcharge.
4. On page 9 Staff excludes \$3,000.00 from rate base as "...costs not sufficiently supported by original cost documentation." Documentation in the form of cancelled checks and bank debit card records do exist even though the original receipt cannot be located. Many of the exclusion are for payments to Mr. Larry Rexroad who is the mail carrier to Atlanta and also purchases and delivers materials and supplies to Atlanta businesses and residents upon request. Absent this service from Mr. Rexroad, additional round trips would be required between Atlanta and Boise to purchase needed supplies. It is obvious that even though Mr. Rexroad may not provide a receipt or one has been misplaced, the purchases can be for no other purpose than to provide a service to Atlanta Power Co. Other expenditures were payable to vendors such as Platt Electric and Graybar Electric. Such vendors provide materials and supplies to the electric service industries. The Staff should give the benefit of the doubt to the company that these documented purchases were indeed for the electric system.
5. Staff on page 9 eliminates \$500.00 from plant in service for cement purchased to pour a concrete floor in one of the buildings owned by Middle Fork LLC from whom Atlanta Power Company rents its storage lot/generator site. This purchase should be treated as a leasehold improvement to the property to accommodate the Atlanta Power Company's diesel generator. It should be noted that this expenditure was only for the purchase of the raw material (concrete) and does not include the cost of transport from Boise to Atlanta (two trips) nor the labor to mix and install approximately 360 square feet 6" thick (6.6 cubic yards) of concrete. These labor costs of \$845.00 were paid personally by the owner, Mr. Ray, and should rightfully be included in plant in service as well as owners equity. Mr. Ray is accumulating the cost information to provide to Staff. More on this issue later in response to Staff's comments regarding rent expense.
6. On page 10 of its comments Staff discusses accumulated depreciation and contributions in aid of construction. Staff indicates in that discussion that it "...revised the CIAC calculation to reflect that the loan proceeds, the subject of Case No. ATL-E-08-1, would first be applied to assets (items

capitalized), then deferred expenses and finally interest. Staff uses this order since it could be argued that the deferred expenses and interest are equity infusions from the owner. As such they would be repaid last." Applicant strongly objects to the Staff's recommendation. The argument could be made but it has no merit. First claim on available cash from the long term loans should go first to wage and salaries payable, (deferred wages payable) material suppliers and short term creditors. This is the proper order of claim. The Company wishes to inform the Commission that since its original filing in Case No. ATL-E-08-1, additional extraordinary expenditures have been identified including rental expense of \$4,611.00 for a temporary generator in August of 2007 and loan repayments in the amount of \$1,874.00 per month that were made personally by the Company's owner for the Months of April through July before the Commission approved surcharge became effective in August of 2008. ($\$1,874.00 \times 4 = \$7,496.00$)

7. On page 11 Staff discusses the Company's return on investment. Staff indicates that Atlanta Power would typically be at the upper end of a range of 10% to 12% return on equity. However, Staff recommends a return on equity of 11% "...to incentivize the Company to make needed financial and organizational improvements." As stated in the beginning of this reply, Staff's recommendation regarding this issue together with Staff's numerous disallowances of expense items is punitive.
8. On pages 12 and 13 of its comments, staff discusses customer accounting costs. In response to Staff's second production request, question #14, Applicant provided Staff with data supporting expenses that have been incurred subsequent to the test year. These costs for an additional part-time contract employee are for general office costs above those being provided by the contract employee who performs customer accounting functions. The duties of this new employee replace the services of an independent accountant to maintain the Company's accounting records in addition to a multitude of other tasks including correspondence and negotiating agreements with governmental agencies. In 2007 and to date in 2008 this contract employee has received total compensation of \$4,787.00. Over a 24 month period this equals an expense to the Company of \$200.00 per month. Staff has not recognized this known and measurable change in its recommendations.
9. Staff at page 13 takes exception to the proposed monthly salary of \$2,400.00 for the Company's President and general manager. Staff seems to think this level of compensation is unreasonable. The Company points out that this salary is paid as "contract labor" i.e. the Company does not treat this as payment to an "employee". Therefore, the Company does not incur any expense for FICA taxes, unemployment insurance, workman's compensation insurance, vacation pay, sick pay etc. The Company President and general manager provides additional benefits to Atlanta Power Company through the use of a 7,500 square foot shop, shop tools and equipment owned by an affiliated Co. (Ray Brothers Seed Co.) located south of Caldwell Idaho. These facilities are used at no additional cost to the power company to fabricate equipment (See Company response to Staff's 3rd Production Request, page 3, question No. 25) and perform repairs to Atlanta Power Co. equipment. Were these facilities not provided by the president, Atlanta Power would have to utilize the service of

an independent contractor for fabrication and repair services at a much higher cost to Atlanta Power Company.

Staff has utilized an average of 500 hours per year to calculate the effective hourly rate of \$58 that Staff believes is unreasonable. The 500 hour estimate was provided by Applicant in response to question number 25 of Staff's 3rd Production request. These hours are for "normal" duties of the President. In that same response, Applicant noted an additional 300 hours spent in 2006 working with the Environmental Protection Agency and 150 hours fabricating gates in the Caldwell shop building mentioned above. If these hours were priced at the \$58.00 per hour Staff calculated, the total compensation to the president/general manager of Atlanta Power would include an additional \$26,100.00 for a total of \$54,900.00. These additional hours were at no additional cost Atlanta Power Company. The Company is currently working to draft a "Fish Ladder Agreement" acceptable to the U.S. Fish and Wildlife Service and U.S. Forest Service. The President has spent enumerable hours working on this rate case. All these hours are in addition to "normal general duties" to manage and maintain the Atlanta Power Company system and are not abnormal but do fluctuate from year to year. The Company received a certified letter from the U.S. Forest service dated September 2, 2008 informing the Company it will be required to file an updated "Emergency Action Plan for Kirby Dam" by December 31, 2008. That letter also informed the Company that it is required to retain the services of a qualified engineer to assess the hazard potential of the dam and submit a report no later than December 9, 2008. A copy of that letter was given to Staff the week of September 22, 2008. This is just another of the additional duties above and beyond "normal" duties of the president/general manager. The \$2,400.00 per month level of compensation for the responsibilities of managing this company is not unreasonable and in fact is a bargain for Atlanta Power Company.

10. Staff recommends, on page 13, exclusion of \$2,138.00 from the Company's reported materials and supplies expenses based primarily upon the absence of invoices. All purchases are documented by either checks or debit card records. Indeed, the Company has gotten the message it must retain and file its receipts in a businesslike manner. Staff's adjustments are nearly ½ of the Company's total reported expenses of \$4,462.10. Given the Staff's praise regarding the shape and condition of the electric system at this time, the Staff and the Commission must realize that materials and supplies expenses must be incurred to keep the system in its present or better condition. If the Company does not have the revenues to provide cash flow, maintenance will suffer and the system will deteriorate.
11. On page 13, Staff also recommends a reduction in the Company's fuel expenses of \$1,485.00 for the same reasons stated above in No. 9. This is nearly ½ of the expenses recorded by the Company. Applicant reiterates that it has gotten the message to clean-up its record keeping and will endeavor to do so in the future. Applicant however cannot operate without adequate revenues to pay its obligations and maintain the system. The Commission should note that Atlanta Power Company does not own any vehicles suitable for normal highway travel. It owns working utility line trucks. Travel between Atlanta and the Treasure Valley is made in private vehicles owned by the Company

President. Applicant conservatively estimates that on the average the President and general manager makes at least 20 trips to and from Atlanta per year. A round trip of 230 miles 20 times per year at the current Internal Revenue Service authorized rate of \$0.505 per mile produces an allowance of \$2,323.00. A second vehicle makes the trip 2 to 4 times per year for an additional allowance of from \$232.30 to \$464.60. This mileage doesn't include local travel to pick up materials, attend meetings with various governmental agencies and meet with legal and financial professionals. Three such trips per month at 40 miles per trip results in an additional 1,440 miles per year for an additional allowance of \$727.20. In addition, fuel must be purchased and hauled to Atlanta for use in two line trucks, the backhoe and generators. This extra fuel for three vehicles plus generators will exceed 300 gallons per year (3 vehicles X 35 gallons per tank X 3 tanks per year = 315 gallons plus extra fuel for generator). At today's fuel prices at around \$4.00 / gallon the fuel hauled to Atlanta costs an estimated \$1,260.00. Altogether a reasonable allowance for inclusion in this case exceeds \$3,800.00 or \$2,300.00 more than the adjusted fuel expense proposed by Staff and even \$700.00 more than claimed by the Company in this Application.

12. At pages 13 and 14, Staff eliminates \$1,319.00 of travel and lodging expense. Staff's reasoning is the same as discussed above regarding lack of invoices/receipts despite the documentation available through checks and debit card records. Staff indicated it was unable to determine whether the costs should be included in the case. Staff has not shown that these expenditures should not be included. Staff also states on page 14 "...management has identified extraordinary hours/tasks in 2006 that could overstate the amount of these expenses necessary for a normal test year." Staff has not identified those "extraordinary hours/tasks". The Company's response to question numbers 25 and 36 of Staff's Third Production Request identified an additional 450 hours of labor in 2006. As stated above in No. 8 above, even though the Company identified extraordinary hours of labor in excess of "normal" duties of the president, these hours are not extraordinary given the regulatory oversight by numerous governmental agencies. These extraordinary duties, above and beyond "normal" operation and maintenance duties fluctuate from year to year. In this regard, the extra hours identified in the test year are not unusual. For instance, the Company has for several months been working on a fish ladder agreement acceptable to several governmental agencies.

Staff recognizes that there is no lodging available in Atlanta and states "...management is staying in a recreational vehicle on a lot owned by one of his other companies". Should the owner of this company be required to furnish accommodations without compensation? The President transported his personal motor home to Atlanta so that overnight facilities would be available after the Beaver Lodge closed. Homes in the Atlanta area rent for \$1,000 per month or over \$30 per day. Trips to Atlanta typically are for a period of 3 to 5 days each requiring overnight stays. At \$30 per night, 20 trips per year, and 3 overnight stays this would translate to lodging costs of \$1,800 per year (30X20X3=\$1,800). The State of Idaho provides a per diem allowance of \$30.00 per day for in-state travel. If the Company were to use this travel allowance, albeit somewhat frugal, the meal allowance

for 20 trips of 3 to 5 days per year would produce an annual expense of approximately \$2,400.00 (30X20X4=2,400). Together these meal and lodging costs would be \$4,200.00 per year, far in excess of the \$2,158.08 claimed by the Company in this case. The Company has requested from the owners of the closed Beaver Lodge in Atlanta, the detail of charges billed to the Company during the test year. These details should be available soon. The nightly rate at Beaver Lodge during the test year 2006 was \$75.00 per night.

13. At page 14, Staff takes exception to the rental cost of the facilities Atlanta Power Company pays to Middle Fork LLC. Middle Fork LLC is an affiliated company owned by the president of Atlanta Power Co. The property owned by Middle Fork LLC is a 3.81 acre parcel of ground that was the mill site for the Monarch Mining Company. At the time of purchase (November 2005), the president of Atlanta Power Company was concerned about liability issues regarding hazardous materials on the site. Therefore, the property was purchased through the LLC to avoid the potential liability for Atlanta Power Co. The property could only be purchased as a single parcel. Much of the property is unusable and unbuildable due to steep slopes and heavy winter snowfalls. The usable part of the property is the valuable part of the property. It is an ideal site for Atlanta Powers back-up diesel generator and equipment lot. It is located far enough from the center of the community to avoid noise complaints. Staff has arbitrarily determined that only $\frac{3}{4}$ acre of this property is usable to Atlanta Power Company and has reduced the claimed rental expense of \$350.00 per month to \$89.94 per month for two buildings and a lot for storage of equipment, a site for the back-up diesel generator and space for the owners motor home discussed in No. 11 above. Staff shows in its work papers that the property has an assessed valuation for tax purposes (Not necessarily fair market value) of \$45,339.00. Using Staff's own approach, the property (before Staff's arbitrary reduction to $\frac{3}{4}$ acre) would have a rental value of \$419.39 before applying a gross-up for taxes. Using Staff's own gross-up factor 1.278496 the fair monthly rental value would be \$536.18, or \$186.18 more than the Applicants claimed expense of \$350.00 per month.
14. Staff on page 14 of its comments reduces the Company's insurances expenses by \$775.00 to \$1,503.00 per year "...to match the most recent premiums documented by the Company." Applicant has and can provide additional documentation to show that annual auto insurance premiums are \$1,287.72 and liability premiums are \$1,082.00 for a total of \$2,369.72.
15. Staff, on pages 14 and 15, has reduced the Company's Professional fees in the test year by \$3,469.00. Staff believes these cost are excessive due to (1) costs incurred before the test year but paid during the year and (2) excessive costs to prepare 3 years annual reports to the Idaho Public Utilities Commission due to stale data. Staff arbitrarily assumes an \$850.00 allowance is adequate for preparation of Atlanta Power Company's Tax Returns and Annual Reports to the Commission. Staff does not include any allowance for legal fees that have exceeded tens of thousands of dollars in the past. Many of these costs have been absorbed personally by the owner of the Company and do not appear on the books and records of Atlanta Power Company. Subsequent to filing this case, the

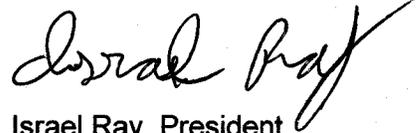
Company has incurred a cost of \$600.00 for preparation of its 2005 tax returns, \$650.00 for its 2006 tax returns and \$750.00 for its 2007 tax returns. The Tax returns and Idaho Public Utilities Commission Annual reports are prepared independently to comply with tax laws and the accounting regulations of the Idaho Public Utilities Commission. Two times the 2007 tax preparation fees or \$1,500.00 per year is a more realistic allowance for financial reporting purposes. Although the Company tries to avoid incurring legal expenses and incurred none in the test year, given the regulatory exposure the Company has, it is not unreasonable to assume that the Company will incur such costs in the future. The Company did incur \$928.50 in legal fees in 2004 and \$3,112.75 in 2005. The Company has also incurred several thousand dollars of legal expense in 2007 and 2008. The \$850.00 allowance proposed by Staff for all professional services is unreasonable. An additional allowance of \$2,000.00 per year for legal services, added to the \$1,500.00 for financial reporting, would produce a more realistic allowance of \$3,500.00 per year.

16. At page 15, Staff adjusts the Company's rate case expenses. Applicant in its amended application estimated rate case cost for this case to be \$13,500. Staff has eliminated \$2,323.40 it has determined was for purposes other than preparation of cases before the Commission. Applicant will not object to this portion of Staff's adjustments. Staff has also appropriately recognized additional rate case cost incurred by the Company through September 5, 2008. Since that time, primarily to analyze and respond to the Staff recommendations, the Company has incurred an additional \$2,507.50 of cost. Additional costs will be incurred but the amount is uncertain. Much depends upon the need to attend hearings, enter into negotiated settlement discussions with other parties, the need to request reconsideration of any Commission orders, preparation of new tariffs etc. The Company's current estimate is a total rate case cost of \$17,500.00.

Staff has determined that a 5 year amortization of the Company's costs is appropriate. To justify this amortization period Staff states on page 15 "Because these costs are associated with two cases, the surcharge and the general rate case, Staff has amortized these costs over five years. The surcharge is proposed for seven years and a typical rate case amortization is three years. A five-year amortization is a reasonable compromise between these two positions." Applicant objects to Staff's position. The Commission reviewed and granted a temporary surcharge of 33.6% by its Order No. 30578 in this case (Case No. ATL-E-08-02). The prior case the Staff relies upon (Case No. ATL-E-08-01) requested approval to issue promissory notes. The Commission by its Order No. 30511 authorized the issuance of those notes but deferred consideration of a cost recovery mechanism by stating "...the underlying costs of these loans not be utilized to establish customer rates until we determine the prudence and costs in the Company's next general rate case." (Order 30511 at pages 3 and 4). The Commission specifically deferred consideration of cost recovery until all costs of the Company could be considered for determining customer rates. In the instant case the recovery (surcharge), albeit a significant amount, is insignificant in the required amount of financial review in this case. The bottom line at issue is the revenue the Company must collect to be viable and how

those revenues should be collected. The three year amortization proposed by Applicant is a more realistic time period. Should the Commission accept the recommendations of the Staff, Applicant will find it necessary to immediately begin preparing a new general rate case application. The owners simply are not willing and cannot afford to continue operating this company as a very expensive hobby.

Respectfully Submitted

A handwritten signature in black ink, appearing to read "Israel Ray". The signature is written in a cursive style with a long, sweeping tail that extends to the right.

Israel Ray, President

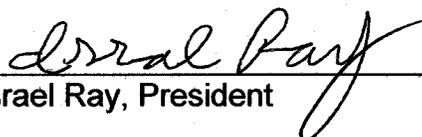
Atlanta Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 3rd DAY OF OCTOBER, 2008,
SERVED THE FOREGOING REPLY TO THE REPORT AND RECOMMENDATIONS
OF THE COMMISSION STAFF, IN CASE NO. ATL-E-08-2, BY HAND DELIVERY
THEREOF TO THE FOLLOWING:

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Israel Ray, President