

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF ATLANTA POWER COMPANY FOR AN) CASE NO. ATL-E-08-02
ORDER AUTHORIZING INCREASES IN)
THE COMPANY'S RATES AND CHARGES)
FOR ELECTRIC SERVICE IN THE STATE) ORDER NO. 30704
OF IDAHO)**

On May 1, 2008, Atlanta Power Company (Atlanta Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase its revenue requirement to \$109,849 and to change the way customers are billed for electric consumption. The Company also requested authorization to implement an emergency surcharge of 54.20% to recover extraordinary costs incurred in 2007 associated with the failure of the Company's hydroelectric turbine. Atlanta Power operates pursuant to Certificate of Convenience and Necessity No. 300. The Company is located in Elmore County and provides electric service to approximately 75 residential and commercial customers in Atlanta.

On May 20, 2008, the Commission issued a Notice of the Company's Application. On May 29, 2008, the Commission established an expedited schedule to process the Company's request for an emergency surcharge. On June 27, 2008, the Commission in Order No. 30578 approved an emergency 33.6% surcharge. On July 18, 2008, the Commission established scheduling for the Company's general rate case. On August 9, 2008, the Company submitted an amended revenue requirement of \$113,045 (a 55% increase). Atlanta Exh. 12. The Commission in this Order revisits the surcharge portion of the Company's Application and addresses the Company's request for a general rate increase.

The parties of record in this case are Atlanta Power, Commission Staff and Greene Tree, Inc., the Company's largest commercial customer. After reviewing and considering the filings of record, the comments and recommendations of the parties, the transcript of public testimony and the written comments of customers, the Commission in this Order establishes an \$83,680 annual revenue requirement for Atlanta Power, authorizes the Company to increase the base rates for all customers by 14.55%, and approves an adjusted 28.9% surcharge. The monthly rates and surcharge for an average Schedule 1 residential customer with monthly usage not exceeding the 500 kWh allowance will increase from \$108.21 to \$119.60. The rates approved in

this Order are set forth in Appendix A. All approved changes in rates and charges are effective for service rendered on or after January 1, 2009. The Commission in this Order further directs changes in the Company's recordkeeping, requires improvements in customer notification, establishes a returned check charge and late payment fee; and, to stabilize revenue, approves a reconnection charge equivalent to approximately four times the monthly customer charge.

SURCHARGE

Background – Emergency Surcharge

Atlanta Power in its Application requested that the Commission declare an emergency and approve a surcharge on existing rates of 54.2% for an effective date of June 1, 2008. In reply comments, the Company amended its surcharge request to 39.15%.

By way of background, Atlanta Power states the following:

- By Order No. 30417 dated August 29, 2007 in Case No. ATL-E-07-01, the Idaho Public Utilities Commission authorized the Company to defer on its accounting records the extraordinary costs incurred in the year 2007 associated with the failure of Atlanta Power's hydroelectric turbine. That Order recognized that the Company would be filing additional applications seeking recovery of the deferred extraordinary costs.
- By Order No. 30511 dated March 3, 2008 in Case No. ATL-E-08-01, the Idaho Public Utilities Commission authorized the Company to incur debt in the amount of \$110,000. The Order recognized the need for the Company to acquire cash to pay the extraordinary costs deferred pursuant to Order No. 30417.

On May 29, 2008, the Commission established an expedited schedule to process the Company's request for an emergency surcharge. The Commission made a preliminary finding that the Company's request for emergency surcharge could be processed under Modified Procedure. IDAPA 31.01.01.201-204. A June 5, 2008 deadline was established for Commission Staff to file a report and recommendation, a June 11, 2008 deadline was established for customer comments and Company reply, and a June 12, 2008 Boise hearing date was set for the purpose of taking public comment and testimony.

The Commission reviewed and considered the Company's request for an emergency surcharge, the comments and recommendations of Commission Staff, the written comments and testimony of customers, and the Company's reply comments. Based upon our review of the

record, we continued to find it reasonable to process the Company's emergency surcharge request under Modified Procedure. IDAPA 31.01.01.204.

In Order No. 30511, the Commission stated that the planned expenditures funded by the proceeds of the promissory notes authorized in Case No. ATL-E-08-01 (\$100,000 and \$10,000) were not to be used to establish customer rates until the Commission determined the prudence of each item in the Company's next general rate case and authorized for each item found prudent a recovery amount. Order No. 30511, p. 4.

On June 27, 2008, in Order No. 30578 the Commission, finding that repayment on the promissory notes had already begun and that exigent circumstances existed, approved an emergency 33.6% surcharge for the Company with modifications and conditions. In the Order we stated that we would revisit the emergency surcharge portion of the Company's Application in our consideration of the Company's accompanying request for a general rate increase. In this Order we review the Company's surcharge application and the underlying prudence of the related expenditures and loans.

Surcharge – Discussion and Findings

We base our review and continued consideration of the Company's surcharge request upon the record established in this case and upon the related record and Orders entered in Case Nos. ATL-E-07-01 (authorization to defer extraordinary expenses) and ATL-E-08-01 (conditional authorization to execute promissory notes). Atlanta Power requested an emergency surcharge (a percentage of existing rates) to generate revenue to meet repayment obligations on authorized debt associated with the 2007 failure of the Company's hydroelectric turbine and to meet other costs and obligations. The requested surcharge is comprised of three elements: (1) a \$100,000 loan – Eric Alberdi; (2) a \$10,000 loan – Greene Tree, Inc.; and (3) an \$18,808 owner loan.

In its Application, Atlanta Power requested a temporary surcharge on current rates of 54.2% for the first year and 38.71% for an additional six years. Staff recommended approval of a 31.2% temporary emergency increase to all tariff rates (except the Schedule 4 “new customer connection charge”) and meter testing charges (General Rules – Regulations and Rates ¶ 15 – Service and Limitations). In reply comments, the Company amended its surcharge request to 39.15%. In Order No. 30578, we authorized an emergency surcharge of 33.6%. In this Order, as discussed and detailed below, we approve an adjusted surcharge of 28.9%, a surcharge to be

applied in the same manner and with the same exclusions. The primary reason for the percentage change in the surcharge is that the base rate to which it is applied has increased through this Order.

Extraordinary Deferred Costs – 2007 Turbine Failure

In assessing the prudence of the Company's expenses related to the 2007 turbine failure we start from the Company's Exhibit 1 in Case No. ATL-E-08-01. As reflected in that Exhibit 1, the deferred cost related to the turbine failure identified by the Company totaled \$114,926. It is from that starting point that Staff proposes adjustments removing non-turbine-related costs to arrive at its adjusted extraordinary deferred cost figure of \$107,831. Staff Report, pp. 6-8. As a protocol, Staff allowed 60% of lodging costs when the Company provided a debit receipt or cancelled check with appropriate memo line for lodging although there were no detailed receipts that identified the room rate, the length of stay, meals purchased and other underlying details of the transaction. Without specific details of the transaction, Staff was unable to determine whether all costs should be included in the case.

The Company in its reply to Staff's Report addresses Staff's exclusion of certain costs proposed for surcharge recovery. The Company does not comment on Staff's exclusion of \$3,800 in consulting fees related to preparation of the Company's Annual Report. Regarding Staff's exclusion of \$2,800 for maintenance and repair of a backup generator that Staff contends was not "used and useful" and was subsequently replaced (Staff Report, p. 6), the Company contends that its efforts at repair resulted from its attempt to minimize costs. Reply, p. 2, Item 1. Despite the Company's efforts, the generator had to be replaced. The Company states that these costs should be included in the cost of the replacement generator and depreciated over its life. The Company notes that there is a partial offset to these costs in the calculations of contributions in aid of construction. Reply, p. 3, item 3.

The Company in its reply also addresses Staff's removal of \$500 in concrete costs for improving a building because the generator was not housed in that building. The building was owned not by Atlanta Power but by Middle Fork/Boise LLC, another company of Israel Ray. Instead, Staff included this \$500 as part of rental costs for the lot to store Company equipment. Staff Report, pp. 6, 14. The Company represents the building will be used as a site for generator storage. The Company contends that the cost of concrete should be treated as a leasehold improvement to accommodate the Company's diesel generator. This expense, the Company

states further, does not include the cost of transport or labor to mix and install 6.6 cubic yards of concrete. These labor costs, the Company states, should be included in plant in service as well as owner's equity. Reply, p. 3. The Commission is informed that the Company presented three cancelled checks written in 2007 as \$845 labor for pouring a concrete pad inside a building owned by Middle Fork/Boise LLC. Two of the three canceled checks do not contain information on the check memo line regarding the services provided for payment. The third canceled check's memo line describes the cost as for repairs and does not match the purpose stated (pouring concrete) for the cost. We find it reasonable to exclude these costs.

The Commission finds Staff's adjustments reasonable and is not persuaded in this instance by the Company's management prudence argument. The test of whether the property is used and useful in rendering service applied by Staff in determining authorized surcharge expenses is a standard that is supported by accounting and regulatory practice and is a reasonable guide to determine whether expense recovery should be allowed.

\$100,000 Loan – Eric Alberdi

The Commission's review of the executed note filed in Case No. ATL-E-08-01 confirms that the \$100,000 loan made by Eric Alberdi is for a term of seven years at an interest rate of 14% per annum with monthly payments in the amount of \$1,874 (first installment due May 1, 2008). The loan documentation is comprised of a Promissory Note dated April 1, 2008 and a Lock Box and Security Agreement dated April 9, 2008. In Case No. ATL-E-08-01, we stated that the \$100,000 promissory note interest rate of 14% was not to be used to establish the Company's revenue requirement or customer rates (Order No. 30511, p. 4). Staff in its emergency surcharge comments recommended the use of a 12% interest rate, a return on the equity component of capital structure approved by the Commission to calculate the emergency surcharge for other small companies. The monthly payment of principal and interest for a seven-year 12% note is \$1,765. Staff Comments, p. 3.

In its reply to Staff comments, the Company recommended that the actual carrying costs of the Alberdi note be used for the temporary surcharge, contending that any interest adjustment should be addressed in the Company's general rate case and that the Company was not able to acquire loan funds at a more reasonable rate. The Company further argued that its owners should not be made to subsidize the carrying costs of this note. Company Reply (6/11/08), pp. 1, 2. The Commission agreed with the Company and found it reasonable for

purposes of emergency surcharge calculation to include the actual carrying costs of the \$100,000 note. In our emergency surcharge Order, we reserved the right in the general rate case to assess the continued reasonableness of the 14% interest rate and consider arguments regarding the recovery of same from customers. Order No. 30578, pp. 3, 4.

In revisiting the Alberdi note, we acknowledge first that we authorized the Company to enter into two loan obligations totaling \$110,000 to pay extraordinary costs associated with the 2007 failure of the Company's hydroelectric turbine. Case No. ATL-E-08-01, Order No. 30511. Our approval was conditional upon a future general rate case prudence review and adjustment (including refund) for authorized recovery. We find that the Alberdi note funds were used for authorized purposes related to the Company's 2007 turbine failure. We find that the Company's promissory note with Alberdi is secured only by a Lockbox Agreement and the personal guarantee of Israel Ray, with Alberdi foregoing any right to enforce the note with liens, attachments or levies against the physical assets of the Company except cash. Alberdi Note ¶ 3a. The Company acquired the note pursuant to a privately negotiated arrangement. The Company contends that it could not obtain a better rate in the marketplace. Company Reply (6/11/08), p. 1; Reply (10/3/08), pp. 2-3, item 2.

We have no way to test this representation or to evaluate other specific loan options available to the Company if it were prepared to offer the security of a dedicated revenue stream or surcharge. Staff contends that financing similar to that recently provided Eagle Water Company (\$110,000 loan December 2007 at Index + 2% or 9.5%) may have been available to Atlanta Power. Staff Report, pp. 7-8. Staff in its comments in the ATL-E-08-01 case recommended that the 14% stated interest rate on the Alberdi note not be utilized to establish rates. Staff asserted then, and reasserts now, that the Company's return on equity rate before reduction should be the maximum rate allowed as a debt cost for ratemaking purposes. Staff Comments, p. 3; Staff Report, p. 7. We determine that it is appropriate to use a 12% interest rate for calculating the authorized loan recovery amount and surcharge, 12% being the return on equity that we authorize in this case and would have applied if the turbine-related plant investment in this case had been financed by owner funds. Twelve percent (12%) is also the equity component of the capital structure authorized for other small companies under our jurisdiction.

The monthly payment of principal and interest for a \$100,000 seven-year 12% note is \$1,765. Considering the other components of the adjusted surcharge that we discuss and approve below, the \$109 monthly difference in the 14% interest rate used for calculating the temporary emergency surcharge, and the 12% surcharge we approve in this Order, is offset in the new rate and recovery period rather than establishing a refund.

\$10,000 Loan – Greene Tree, Inc.

The \$10,000 loan, made by Greene Tree, Inc., a customer of Atlanta Power, is for a term of one year at a rate of 10.75% with loan repayment accomplished through monthly billing credits of \$882.65 for that customer. The loan documentation filed in Case No. ATL-E-08-01 consists of an Agreement dated March 18, 2008. The Company in its Application proposed to recover this loan from customers over a one-year period. Repayment had already begun at the time of the Company's Application filing in this case. Staff in its emergency surcharge comments recommended a seven-year surcharge recovery period for this loan at a higher 12% interest rate. The higher interest rate of 12%, Staff contends, recognizes a longer (seven-year) term. Staff Comments, p. 4. In reply comments, the Company stated it would accept Staff's adjustment. Company Reply (6/11/08), p. 2. We acknowledge that in Order No. 30511 we authorized the Company to enter into a \$10,000 loan obligation. We find that the funds were used for authorized purposes related to the Company's 2007 turbine failure. We continue to find the surcharge amount proposed by Staff and agreed to by the Company to be reasonable. The monthly payment of principal and interest for a \$10,000 seven-year note is \$177.

\$18,808 Owner's Funds

According to the Company's workpapers, the \$110,000 loaned Atlanta Power was essentially to pay the owner for wages the Company deferred in 2007 and to pay Ray Bros. Seed, another company of the owner, for costs associated with the turbine failure. Staff Report, pp. 6, 7. The Company has requested interest on those deferred wages and other payments. In its Application, Atlanta Power requested \$332 per month to recover owner loans in the amount of \$18,808 over seven years at 12% interest as part of its proposed emergency surcharge. In our emergency surcharge Order, we excluded the recovery of amounts owing to the owner. We deferred recovery consideration of this \$18,808 until the general rate case.

The owner loans identified by the Company include three months of deferred wages in January through March 2008 (\$5,400), other turbine replacement costs exceeding the

\$110,000 in loans received from third parties (approximately \$5,000) and related interest on said amounts (approximately \$5,000). Management also deferred wages in 2007 to provide funding for the Company to meet its extraordinary costs. Staff recommends that the three months of deferred wages in January through March 2008 be treated as an owner's contribution that can be repaid through Company operations when funding is available. Staff Report, p. 8. The wages deferred in 2007 have been repaid through the Alberdi and Greene promissory notes. Staff in its surcharge calculations recommends recovery of \$4,164 interest due the owner. Staff calculated interest based upon the dates the extraordinary costs were paid. Interest was calculated through March 31, 2008, because the loans were finalized in March and April 2008. The monthly payment of principal and interest for a \$4,164 seven-year note is \$73 per month. Staff Report, pp. 7, 8, Tables 1 and 2.

In Case No. ATL-E-08-01 (Order No. 30511), we found that the Company's owners were to be solely responsible for repayment of any portion of the notes (\$100,000 and \$10,000) that might be disallowed in a future rate proceeding. Order No. 30511, p. 4. The Company contends that disallowing recognition of funds loaned to the Company by its owner deprives the owner of the recovery of his costs and adversely affects the Company's already poor cash flow. Company Reply (6/11/08), p. 3. In this Order we recognize the owner advances used to remedy the turbine failure and provide the Company with interest calculated and based upon the dates the extraordinary costs were paid.

Surcharge Recovery Calculation

Staff, in its emergency surcharge recovery calculation, proposed two adjustments to the Company's rate design data: (1) Staff proposed use of calendar year 2007 numbers of bills applied to 2006 average use per customer by rate schedule. Staff Comments, p. 6. This adjusts for anomalous usage during the time in 2007 when the hydroelectric system was unavailable and standby diesel generation was available only on a limited basis. This adjustment increases kWh usage by 27,669 which is a 13% increase over 2006 amounts. The Company did not object to this approach and we found the adjustment reasonable. We continue to find the adjustment reasonable.

(2) Staff also recommended in the emergency surcharge recovery calculation to add two additional electric customers to the billing data and to impute revenue attributable to them in calculation of the required surcharge – i.e., adding the Company's owner to Schedule 3

(Seasonal Residential) and adding the home of the Company's two onsite employees to Schedule 1 (Permanent Residential). The Company opposed this adjustment citing Commission language in Atlanta Power Case No. ATL-E-93-1, Order No. 24925, addressing the provision of power from surplus hydro capacity as compensation for something received. Were its employees required to pay an electric bill, the Company states that their effective compensation would be reduced and a wage increase would be required. Regarding the second customer that Staff adds, it does not make sense, the Company states, to charge itself electric energy rates that would simply become operating costs on the other side of the income statement.

We deferred consideration of Staff's argument to add two customers in revenue and rate design calculations until the general rate case. We find that Staff has abandoned its argument in its general rate case filing. We find the Company's reasoning to be persuasive. We will not make this adjustment in surcharge calculations.

Based on the foregoing, the Commission finds it reasonable to calculate a surcharge to recover the following monthly cash flow requirements:

| | | |
|--------------------------|-------------------------|-------------------------|
| Promissory Note 1 | \$100,000 (7 yrs @ 12%) | \$1,765.00/month |
| Promissory Note 2 | \$10,000 (7 yrs @ 12%) | \$ 177.00/month |
| Owner's Funds (Interest) | \$ 4,164 (7 yrs @ 12%) | \$ 73.00/month |
| Total Monthly Recovery | | <u>\$2,015.00/month</u> |
| Approximate Annual Total | | \$24,180.00/year |

Both Company and Staff propose an equal percentage surcharge. The monthly surcharge that we find reasonable is a 28.9% uniform percentage increase applied to all tariff rates except the Schedule 4 "new customer connection charge" and meter testing charges (General Rules – Regulations and Rates ¶ 15 – Service and Limitations) which by this Order are moved to Schedule 4. The surcharge is not to be included in the general base rates of customers. Instead, it will be a separate line item charge on each customer's bill. The Company is to maintain a monthly record of surcharge payments and provide a status accounting of the surcharge with its Annual Report filing.

GENERAL RATE CASE

Background

Atlanta Power in its May 1, 2008 Application requested authority to increase its annual base electric revenues to \$109,849 and proposed numerous changes in the way it bills

customers for electric consumption. Appl. Exh. 4. In its initial Application, the Company proposed to eliminate the 500 kilowatt-hour (kWh) monthly allowance in tariff Schedules 1 (Permanent Residential) and 2 (Permanent Commercial) and to charge customers for all monthly kilowatt-hour usage. The Company also proposed to eliminate its Seasonal (Weekend or Part-Time Use) rate schedule (Schedule 3) for residential and commercial customers and to move those customers to Schedules 1 and 2. In an amended filing on August 8, 2008, the Company in response to customer opposition withdrew its proposal to eliminate the kilowatt-hour allowance and seasonal schedules. To recover additional rate case expense the Company increased its proposed annual revenue requirement to \$113,045, a 55% increase over current adjusted revenue (\$73,051). Atlanta Exh. 12. The Company's current base rates were approved by the Commission in 1993 in Case No. ATL-E-93-1, Order No. 24925.

Apart from the Company, the intervenor, Greene Tree, Inc., and Commission Staff were the only formal parties to participate in this case. On September 18, 2008, after performing its audit and holding a public workshop for Atlanta Power customers, Staff filed its Report and Recommendations. Staff recommends that the Company's annual revenue requirement be increased to \$76,770, an average increase in rates of 5.09%. Staff Report, p. 20.

On October 3, 2008, Greene Tree and Atlanta Power filed reply comments to Staff's Report. The Company in its reply stands by its Amended Application and provides specific rebuttal to some of Staff's proposed adjustments. The Company characterizes Staff's recommendations in this case as punitive and unrealistic. Company Reply, pp. 1, 2. Greene Tree in its reply accepts Staff's pro forma adjustments and recommends that the Commission adopt a rate design that equalizes the energy charges for residential and commercial customers. Greene Comments, p. 6.

The Commission in this Order establishes an \$83,680 annual revenue requirement for Atlanta Power and authorizes the Company to increase base rates for all customers by 14.55%. See Appendix D. The rates we approve are set forth in Appendix A. Our related findings are set out below.

Test Year

Because of the Company's turbine failure in 2007, Atlanta Power and Staff agree that 2007 is not typical of normal operations. The Company proposes and Staff agrees that a test

year ending December 31, 2006 be used as the basis for the Company's general rate case. Application, p. 4; Staff Report, pp. 4, 5.

We find:

The Commission finds use of a 2006 test year to be reasonable for purposes of this case.

Capital Structure/Rate of Return

The Company proposes to use the capital structure reported to the Commission in its 2006 Annual Report, with corrections. Atlanta Exh. 3. The Company is requesting a 12% return on the equity component of its capital structure. The equity return requested by the Company, it states, is equal to the return the Commission has allowed for other small utility companies under its jurisdiction and recognizes the risk associated with a small utility company. The overall rate of return requested (including a 2004 Alberdi note at 14%) is 12.2%. Application, p. 6; Exh. 3.

Staff proposes an 11% return on equity until the Company has made needed financial and organizational improvements. Once the Company has made those improvements, Staff agrees that a 12% return on equity would be reasonable. Staff Report, p. 11; Report Atch. C. Staff further recommends that the Company's unreduced return on equity be the maximum rate allowed on debt for ratemaking purposes. The Company views Staff's return on equity recommendations as punitive. Reply, p. 4.

We find:

Based on our review of the record, we adopt the proposed capital structure shown below. We find the Company's argument regarding return on equity to be reasonable. Our disallowance of expense in this case should provide all the incentive needed for the Company to retain competent consultants and improve its financial recordkeeping. We further find reasonable, however, Staff's proposal to cap the authorized debt rate recovery for the Alberdi promissory note at 12%. Twelve percent (12%) is the return on equity that we approve in this case and is the maximum rate we find reasonable to allow as debt cost for ratemaking purposes.

WEIGHTED COST OF CAPITAL

| | Corrected Total at 12/31/06 | Weight | Rate | Weighted Cost |
|----------------------------|--|---------------|-------------|--------------------------|
| Common Stock | \$144,171 | | | |
| Retained Earnings | (\$91,704) | | | |
| Additional Paid-In Capital | \$15,276 | | | |
| Owner's Equity | \$67,743 | 42.12% | 12% | 5.05% |
| Notes Payable – Others | | | | |
| Alberdi 2004 loan | \$54,428 | 33.84% | 12% | 4.06% |
| Zimmerman loan | \$18,956 | 11.78% | 10% | 1.18% |
| Israel Ray loans | \$19,723 | 12.26% | 10% | 1.23% |
| Overall Capital | \$160,850 | 100.00% | | 11.52% |

Rate Base

Atlanta Power uses a pro forma rate base of \$143,921 in its revenue requirement calculations. Application, p. 4; Atlanta Exh. 1.

Staff proposes a pro forma rate base of \$118,011. Staff Report, pp. 9-11; Atch. A. In its calculation, Staff removes costs that it contends should not have been capitalized, were not supported by original cost documentation and did not improve buildings owned by the Company. Staff Report, p. 9.

The Commission accepts Staff's rate base calculations with adjustments for additional and supplemental documentation submitted by the Company as set forth and described in greater detail below. In accepting Staff's adjustments we acknowledge a regulatory responsibility to customers to hold the utility to a businesslike standard in maintaining its accounting and business records and to require adequate and sufficient records and receipts as a condition of authorizing expense recovery. The resultant rate base we approve is \$119,871. See Appendix B.

Plant in Service

Staff reduced plant in service by approximately \$11,000. This included removing \$5,000 identified as fencing costs in the Company's case that Staff had determined were actually monthly labor for maintenance of the system. These costs were included by Staff, to the extent they were documented, under operating expenses. The reduction was partially offset by a \$1,000 increase in plant in service not included in the Company's case. Staff's adjustment also includes removing approximately \$3,000 for maintenance and repair of a generator that was subsequently

replaced; removing \$500 for cement used to improve a building on a lot owned by Middle Fork/Boise LLC, another company of Israel Ray, Atlanta Power's owner; and removing approximately \$3,000 for costs not supported by original cost documentation. Staff Report, p. 9.

The Company in its reply addresses Staff's removal of the generator repair (Reply, p. 3, item 3) and cement costs (Reply, p. 3, item 5) from plant in service. Atlanta Power contends that Staff's generator repair adjustment penalizes the Company for trying to maintain service at the lowest possible cost. This cement purchase, it argues, should be treated as a leasehold improvement to accommodate the Company's diesel generator.

Regarding Staff's adjustment removing \$3,000 in costs not sufficiently supported by original cost documentation, the Company states that even though original receipts cannot be located, documentation in the form of cancelled checks and bank debit card records do exist. Payments were made to the contract mail carrier for Atlanta and to vendors such as Platte Electric and Graybar Electric. Reply, p. 3, item 4. Atlanta Power argues that Staff should give the benefit of the doubt to the Company that these documented expenses were indeed for the electric system. Reply, p. 3.

After the filing of Staff's Report, the Commission was informed that the Company has presented invoices and returned checks (with a completed memo line consistent with the activity/cost recorded) that support an addition to total plant in service in the amount of \$1,785 (\$1,695 electric plant in service; \$89 tools and shop equipment).

We find:

The Commission accepts Staff's plant in service adjustments as reasonable and further finds it reasonable to increase total plant in service by \$1,785 to reflect additional documented plant. The total plant in service we approve for rate base treatment is \$479,689.

Contributions in Aid of Construction (CIAC)

Staff revised the Company's CIAC calculation to reflect that the Alberdi and Greene loan proceeds authorized in Case No. ATL-E-08-01 would first be applied to assets, then to deferred expenses and finally to interest. Deferred expenses and interest, Staff contends, are arguably equity infusions from the owner. As such they would be repaid last. Staff Report, p. 10. Atlanta Power disagrees. The Company contends that first claim on available cash from the long-term loans should go to deferred wages and salaries, and then to material suppliers and short-term creditors. This, it states, is the proper order of claim. Reply, pp. 3, 4, item 6.

We find:

The Commission accepts Staff's adjustments and Staff's proposed order for applying loan proceeds. The Company proposes what is essentially a bankruptcy order of retirement. This is not a bankruptcy. The CIAC that we approve for rate base is (\$95,443). The related amortization is \$4,326.

Accumulated Depreciation and Depreciation Expense

While depreciation is an element of rate base, there is no disputed issue regarding depreciation in this case. The Commission notes that after the filing of Staff's Report the Company filed additional invoices and other documentation sufficiently supporting costs in its Application. The accumulated depreciation related to the \$1,785 increase in plant supported by additional documentation is \$415. The calculation of depreciation is arithmetic and dependent upon plant in service and CIAC. The accumulated depreciation figure we reflect in rate base is (\$274,756). The depreciation expense related to the \$1,785 increase in plant is \$276.

Inventory

Included in the Company's filing is \$7,000 for inventory of materials and supplies. Atlanta Exh. 1. Staff reports that the Company has stated that "current management has no records or knowledge of the purchases recorded to this account." Further, the Company states that "as the inventory is used up, replacement materials and supplies are either capitalized or expensed as they are purchased." Staff Report, p. 10. Staff removed the \$7,000 from the Company's proposed rate base. The Company did not reply to this adjustment.

We find:

The Commission finds that the Company is not able to provide sufficient documentation on the amount included as inventory and finds it reasonable to exclude same from rate base.

Working Capital

Working capital provides funds to pay expenses until customer revenues are received. The Company and Staff agree that one-eighth (1/8) of annual operating expenses (45 days) should be included in rate base. Staff Report, pp. 10, 11.

The Commission notes that after the filing of Staff's Report the Company filed additional documentation sufficiently supporting more costs reflected in its Application. The

working capital (rate base) increase related to increases in operating expenses supported by additional documentation is \$490 for a total working capital allowance of \$6,055.

We find:

The amount of working capital is an arithmetic calculation based on the operating expenses we approve in our revenue requirement determination. We find it reasonable to calculate working capital as a one-eighth (1/8) percentage of annual operating expenses.

Results of Operations – Revenues and Expenses

Revenues

Atlanta Power in its Application identified \$68,389 in pro forma 2006 revenue. Atlanta Exh. 2. In its amended Application, the Company increased test year revenues by \$4,662 to reflect the known and measurable change of growth in the number of customers that occurred between 2006 and 2007. Atlanta Exh. 12. Staff agrees with the resultant \$73,051 pro forma revenue amount.

We find:

The Commission acknowledges that the Company and Staff have agreed to an adjusted pro forma revenue amount of \$73,051 and accepts this calculation as reasonable for ratemaking purposes.

Operating Expenses

The Company in its Application identified twelve (12) operating expense categories and with pro forma adjustments for known and measurable changes calculated total operating expenses of \$64,234. Atlanta Exh. 2.

Staff proposed negative adjustments in eight (8) of the twelve (12) expense categories and calculated total operating expenses of \$44,521, a difference of \$19,713. The Company in its reply disagrees with Staff's adjustments.

We find:

The Commission's findings in many of the following expense categories share a common theme, a denial of full recovery because of inadequate and insufficient documentation by the Company. The extent of this recordkeeping deficiency is of such magnitude that we devote a later section of this Order to a discussion of recordkeeping. The Company states in reply comments that recovery of expenses is necessary because the owner cannot afford to continue operating the utility as a very expensive hobby. Reply, p. 9. We deny full recovery

because the owner does not account for its utility operations and expenses in a businesslike manner. As regulators, we cannot lower our accounting standards and requirements – they are established by statute and rule. It is the Company that must raise its accounting practices.

The Commission in this Order approves total operating expenses of \$48,436. See Appendix C. We find it reasonable to accept the expense amounts in the undisputed categories. A discussion of the disputed adjustments follows:

Labor

A. Power Generation – Labor. Atlanta Power requests \$9,990 annually for power generation labor. Atlanta Exh. 2. Staff reduced Power Generation Labor by \$250 and included \$9,740 annually for monthly maintenance and extra duties. Staff Report, p. 12. The Commission is informed that since the filing of Staff’s Report, the Company provided a canceled check for \$170. The memo line of the check did not identify what services were provided for that payment.

We find:

The Commission accepts Staff’s adjustment to reduce labor to reflect costs documented by the Company and because of incomplete documentation adds only 60% of the \$170 for a power generation labor total of \$9,842.

B. General Office – Labor. Atlanta Power requests \$4,200 annually for general office labor. Staff does not contest this expense. The Company in its reply identifies costs not included in its initial and amended rate case filings for an additional part-time contract employee, the owner’s daughter, in 2007 and 2008 for general office costs above those being provided by the contract employee who performs customer accounting functions. The owner’s daughter provides services that would otherwise be done by an independent accountant to maintain the Company’s accounting records. In addition, she does a multitude of other tasks including correspondence and negotiating agreements with governmental agencies. In 2007 and 2008 to October 3, 2008, the Company contends that the total compensation for this contract employee was \$4,787. Company Reply, p. 4.

We find:

The Commission approves a general office labor total of \$4,200. We make further findings regarding accounting costs below in the professional services section of this Order.

C. General Officer's Salaries. Atlanta Power requests \$28,800 annually for general officer's salaries. The Company's request includes an increase in monthly pay for management from \$1,800 to \$2,400 a month, or \$7,200 annually. Application, p. 5. Staff reduced the Company's request by \$7,200, including \$21,600 annually for management salaries at the \$1,800 per month rate established during and after the test year. The Company, Staff states, estimated normal duties in 2006, 2007 and 2008 at 500 hours per year. However, no time sheets or logs are maintained to document this estimate. Staff Report, p. 13.

The Company identified the 500 hours per year as "normal" duties of the president. The Company states the president and general manager provides additional benefits to Atlanta Power through use of a shop, shop tools and equipment owned by an affiliated company. The Company claims 300 hours spent in 2006 working with the Environmental Protection Agency and 150 hours fabricating gates in the shop mentioned previously. These services, if priced at \$58 per hour and billed to the Company, it states, would be \$26,100. The Company additionally notes that it is currently working with other federal agencies on utility-related matters (U.S. Fish and Wildlife Service and U.S. Forest Service) and that its president has spent enumerable hours working on this rate case. All these hours, the Company states, are in addition to "normal general duties." Company Reply, pp. 4, 5.

We find:

The Commission accepts Staff's general officer salary adjustment as reasonable and approves a general officer's salary total of \$21,600. We find any further award to be unsupported by sufficient documentation.

Materials and Supplies

Atlanta Power requests \$4,462 annually for power generation materials and supplies. Atlanta Exh. 2. Staff reduced materials and supplies expense by \$2,138 for costs that were unsupported by invoices. Staff Report, p. 13. Since the filing of Staff's Report, the Company documented \$1,612 of these costs. The Company states it has gotten the message it must retain and file its receipts in a businesslike manner. The Company states that the Staff and Commission must realize that materials and supplies expenses must be incurred to keep the system in its present or better condition. Company Reply, p. 5.

