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Attorney for the Commission Staff

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)
ELECTRIC SERVICE IN THE STATE OF) COMMENTS OF THE
IDAHO.) COMMISSION STAFF
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COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Modified Procedure (Emergency Surcharge), Notice of Staff Report Deadline, Notice of Public Comment and Company Reply Deadline, and Notice of Public Hearing issued on May 29, 2008, submits the following comments.

BACKGROUND

On May 1, 2008, Atlanta Power Company (Atlanta Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a general rate increase in the Company's basic tariff rates for electric service together with a request for an emergency surcharge. Atlanta Power is requesting an increase in its electric rate schedules to increase revenues by 60.62% and requesting a temporary emergency surcharge on existing rates of 54.2% effective June 1, 2008. Atlanta Power operates pursuant to Certificate of Convenience

and Necessity No. 300. Atlanta Power is located in Elmore County and provides electric service to approximately 75 residential and commercial customers in Atlanta.

In Commission Order No. 30561 dated May 29, 2008, the Commission stated that it would be unable to consider the Company's Application before the proposed effective date of June 1, 2008, because of the time required for investigation of the reasonableness of the Company's proposal and because of other demands on the Commission's time. As a result, it suspended the proposed schedules of rates and charges for electric service and the proposed surcharge in the Company's Application for a period of thirty (30) days plus five (5) months from the proposed effective date of June 1, 2008, or until such earlier time as the Commission enters an Order accepting, rejecting, or modifying the Application in this matter.

On May 29, 2008, the Commission found that exigent circumstances exist to expedite procedure in the matter of the Company's request for an emergency surcharge. The Commission established a June 5, 2008 deadline for the filing by Commission Staff of its report on the Company's request for an emergency surcharge. These Staff Comments contain Staff's report on the Company's request for an emergency surcharge.

STAFF REVIEW

Staff has reviewed the Company's Application regarding its request for a temporary surcharge on current rates of 54.2% the first year and 38.71% for the remaining six years.

By way of background, Atlanta Power states the following regarding its proposed emergency surcharge:

- By Order No. 30417 dated August 29, 2007, in Case No. ATL-E-07-1, 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-08-1, 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. Atlanta Power has determined that its loan repayment obligations including loans from the Company's owners require monthly payments of \$3,088.66 per month for the first 12 months and \$2,206.01 per month for an additional 72 months. To fully

recover these repayment obligations over the term of the two notes comprising the \$110,000 incurred indebtedness and the loans from the Company's owners, Atlanta Power contends that the Company requires a surcharge on current rates of 54.2% for the first year and 38.71% for the remaining six years.

At Staff's request, the Company provided copies of the two executed notes that total the \$110,000 referred to above. The larger note was executed on April 9, 2008, and the smaller note was executed on March 18, 2008. These notes were received by Staff on May 13 and May 16, 2008, and filed with the Commission, although not within the time period required by the Commission. Order No. 30511 dated March 3, 2008, in Case No. ATL-E-08-1, required the Company to provide to the Commission within seven (7) days of execution copies of all executed versions of the Promissory Notes.

Staff's review of the executed notes confirms that the \$100,000 loan was for a term of seven (7) years at an interest rate of 14% per annum with monthly payments in the amount of \$1,874. The \$10,000 loan, made by a customer to Atlanta Power, was for a term of one (1) year at a rate of 10.75% with loan repayment accomplished through monthly billing credits of \$882.65 for that customer. The first installment of interest and principal for the \$100,000 note was due May 1, 2008. Although the \$10,000 note is silent with regards to the date of the first monthly bill credit, it is Staff's understanding through discussion with Atlanta Power's owner that the \$10,000 note is about half satisfied.

By Order No. 30511 dated March 3, 2008, in Case No. ATL-E-08-1, the Commission ordered that the \$100,000 Promissory Note's interest rate of 14% not be used to establish the Company's revenue requirement or customer rates. As a result, in its calculation of a temporary emergency surcharge Staff has used an interest rate of 12% for this Note. This rate has been approved as a return on the equity component of the capital structure for other small utility companies under the Commission's jurisdiction. Atlanta Power's return on equity rate allowed in the general base rate portion of this case should be the maximum rate allowed as a debt cost for ratemaking purposes. Staff recommends that during the general rate case review that a debt rate based on loan options be evaluated to determine the maximum loan rate to be reflected in rates. At that time, the temporary emergency surcharge would be re-evaluated in concert with the proposed general base rates. The monthly payment of principal and interest for a seven-year, 12% Note would be \$1,765 and that is the amount proposed by Staff for inclusion in the

temporary emergency surcharge. The Company proposed recovering from customers \$1,874 monthly for this Note.

Staff also recommends the temporary emergency surcharge recover some monies for the \$10,000 Note authorized in Case No. ATL-E-08-1. Staff believes a one-year note that has been over half repaid through bill credits should not be recovered from customers in a one-year surcharge. Staff includes a monthly amount of \$177 for this Note in its proposed temporary surcharge. This amount was derived by calculating a payment amount for a seven year, 12% Note of \$10,000. This provides recovery for this Note and underlying costs from customers at a different level than proposed by the Company. The higher interest rate of 12%, above the 10.75% face amount, recognizes a longer (seven-year) term. The Company proposed recovering from customers \$883 monthly for this Note.

Staff's proposed temporary emergency surcharge is calculated to recover from customers \$1,942 monthly to provide an immediate increase in cash flow to the Company until the Commission issues a final Order in the Atlanta Power general rate case portion of Case No. ATL-E-08-2. Staff recommends that this temporary emergency surcharge be subject to refund (if necessary) when the permanent rates in this case are established by the Commission.

Staff has not included for recovery in this temporary emergency surcharge any payments to the owners for funds lent to the Company. In its Application, the Company has included in its proposed emergency surcharge to recover owner loans in the amount of \$18,808 over a seven-year period at an interest rate of 12%. The Company proposes recovering from customers \$332 monthly for these loans by the owner. The majority of the \$18,808 included by the Company in its Application has been characterized as deferred labor costs for the owner (including interest for approximately \$7,300) and interest (approximately \$6,600) owed to the owner's other (non-utility) business. Other costs include those characterized as replacement of the Company's turbine that exceeded the \$110,000 loans received from third parties. Staff has not included these additional amounts in its proposed temporary emergency surcharge to recognize two things. One, some costs (such as deferred owner wages and the appropriate treatment of an owner's loan for ratemaking purposes) have not been established by the Commission in this case and would directly impact the amounts recoverable by the owner. Two, the Commission (Order No. 30511 in Case No. ATL-E-08-1) ordered that the Atlanta Power Company owners be solely responsible for repayment of any portion of these Notes that are disallowed in a future rate proceeding. Excluding an owner's portion from the temporary emergency surcharge prevents

the potential recovery of disallowed costs that may be found, during the general rate case review, to be solely the responsibility of the owners.

The following table summarizes the Company and Staff's positions for the amounts to recover from the Company's customers.

Table No. 1

Notes/Loans	Company		Staff (unless modified by final rate case order)
	Year 1	Years 2 - 7	
Promissory Note - \$100,000	\$1,874 per mo.	\$1,874 per mo.	\$1,765 per month
Promissory Note - \$10,000	\$883 per month	\$0 per month	\$177 per month
Owner's Funds - \$18,808	\$332 per month	\$332 per month	\$0 per month
Total Monthly Recovery	\$3,089 monthly	\$2,206 monthly	\$1,942 per month
Total Annual Recovery	Approx. \$37,064	Approx. \$26,472	Approx. \$23,302

The Commission ordered (Order No. 30511 dated March 3, 2008) that the expenditures funded by the proceeds of the Promissory Notes authorized in Case No. ATL-E-08-1 not be used to establish customer rates until the Commission determines the prudence and the amount for recovery is established for each item in Atlanta Power's next rate case. Due to the exigent nature of the Company's request regarding its proposed temporary surcharge and the usefulness of correlating these expenditures with the Company's routine (base rate) expenditures, such a prudence review has not been completed to date. As a result, 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's proposed temporary emergency surcharge is conservative for the reasons stated above and the unaudited nature of the costs presented for recovery.

Staff recommends that the Company bill the emergency surcharge approved by the Commission on a separate line on its customers' bills. To ensure that an adequate record is maintained in case the emergency surcharge or a portion thereof is refunded, Staff recommends the Company maintain a record of surcharge payments by each individual customer and record those payments in a separate account on its books.

RATE DESIGN

The Commission Staff has reviewed the Company's proposed rate design calculations. For the purpose of rate design, the Company used calendar year 2007 customers and customer usage.

Staff proposes two types of adjustments to the rate design data presented by the Company. First, the Staff proposes the use of 2007 numbers of bills applied to 2006 average use per customer by rate schedule. Staff proposes this adjustment to adjust for anomalous usage experienced by the Company during the summer of 2007 when the Company's hydro power system was not in service and power from the back-up diesel generator was only available part time. This adjustment increases kWh by 30,048 which is a 14% increase over 2006 amounts.

Second, the Staff proposes the addition of two customers to the billing data. The two customers are the Company owner and the person who operates and maintains the power system. Neither person is billed but both are provided power as partial compensation for the service they provide to the Company. Staff proposes that the owner be assigned to Schedule 3 and the other individual, who lives in Atlanta full time, be assigned to Schedule 1. This adjustment fairly spreads a portion of the Company's emergency surcharge revenue requirement to these customers and reduces the revenue requirement responsibility of all other customers. This adjustment increases the customer count by 2, approximately 3%, and kWh by 5,512 which is a 3% increase over 2006 amounts. The two adjustments together change the Company's revenue under present rates from the Company proposed amount of \$68,389 to \$73,407.

For the emergency surcharge portion of this case, Staff proposes that the increased revenue requirement be recovered by a uniform percentage increase applied to all tariffed rates except the new customer connection charge and the meter testing charge. The percentage increase that produces the \$23,302 of surcharge revenue requirement proposed by the Staff is 31.74%. Attachment A shows that the proposed increase recovers the Staff's surcharge revenue recommendation. Staff recommends that the Company continue to calculate customer bills under current base rates and then calculate and add the surcharge, which would be shown on a separate line, to get the final bill. The Staff recommends that a new schedule be created that specifies the surcharge percentage and states that it applies to all tariffed rates except the two rates previously specified.

STAFF RECOMMENDATIONS

Staff recommends approval of a 31.74% temporary emergency increase to all tarified rates except the new customer connection charge and the meter testing charge effective as soon as possible following issuance of the temporary emergency surcharge Order, subject to refund (if necessary) once the Commission issues a final Order in the Atlanta Power general rate case, Case No. ATL-E-08-2.

Staff recommends that the prudence of the extraordinary expenditures necessitating the loan payments be determined contemporaneously with the review of the Company's costs and records supporting its request for a general base rate increase in this case and that the owners be solely responsible for repayment of any portion of these Notes that are disallowed in the rate proceeding. Staff recommends that the issue of a surcharge, its amount and treatment be revisited at that time.

Staff recommends that the Company bill the emergency surcharge approved by the Commission on a separate line on its customers' bills. To ensure that an adequate record is maintained in case the emergency surcharge or a portion thereof is refunded, Staff recommends the Company maintain a record of surcharge payments by each individual customer and record those payments in a separate account on its books.

Staff recommends that a new schedule be created that specifies the surcharge percentage and the rates to which it applies.

Respectfully submitted this 5th day of June 2008.


Scott Woodbury
Deputy Attorney General

Technical Staff: Keith Hessing
Patricia Harms
Nancy Hylton

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**Atlanta Power Company
 Summary of Revenue
 Commission Staff Case
 2006 Test Year Adjusted**

Line No	Uniform Tariff Rates	Rate Schedule	2006		2006 Sales Adjusted (kWh)	Present Revenue	Revenue Adjustments	Proposed Revenue	Percent Change
			No. of Bills Adjusted						
1	Permanent Resident	1	250		99,416	\$20,765	\$6,592	\$27,357	31.74%
2	Permanent Commercial	2	59		107,877	\$23,524	\$7,467	\$30,991	31.74%
3	Seasonal Residential	3	590		40,324	\$29,118	\$9,243	\$38,361	31.74%
4	Seasonal Commercial	3	0		0	\$0	\$0	\$0	0.00%
5	Total Retail Sales		899		247,617	\$73,407	\$23,302	\$96,709	31.74%

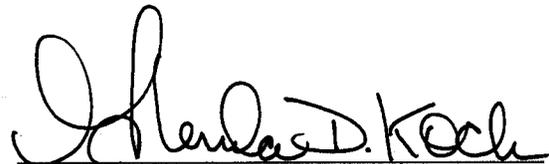
Attachment A
 Case No. ATL-E-08-2
 K. Hessing, Staff
 6/05/08

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 5TH DAY OF JUNE 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION**, IN CASE NO. ATL-E-08-2, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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