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UTILITIES COMMISSION

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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
IDAHO POWER COMPANY TO REVISE ITS)	CASE NO. IPC-E-03-7
DEPRECIATION RATES FOR PLANT IN)	
SERVICE.)	
)	COMMENTS OF THE
)	COMMISSION STAFF
)	

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Amended Notice of Comment Deadline issued in Order No. 29313 on August 6, 2003, submits the following comments.

Idaho Power Company filed an Application on May 6, 2003, requesting authority to revise its depreciation rates for the Company's electric plant in service. Idaho Power's depreciation rates have not been significantly changed since the Commission issued Order No. 24739 in 1993. Although the Company's total annual depreciation expense would increase by nearly \$7.0 million under its proposal, the present Application does not request a change in electric rates.

STAFF ANALYSIS

With the exception of a few accounts, Staff was generally satisfied with the Application as filed with the Commission. Staff analysis verified that the proposed rates were generally comparable to those used by industry for similar companies and to rates that were recently approved for PacifiCorp.¹ The proposed Idaho Power rates compared favorably to PacifiCorp's rates in that they generally required equal or lower salvage costs and similar or longer asset lives. After conducting its analysis, Staff participated in public meetings and settlement discussions with the Company and the Industrial Customers of Idaho Power (ICIP). The purpose of the meetings was to resolve concerns Staff and the ICIP had with regard to the Application as filed. The Company and Staff have made considerable progress and are working to develop a written Stipulation to submit to the Commission. The Company and Staff have agreed in principle to resolve the primary issues of concern as discussed below. The anticipated Stipulation will reduce the overall requested depreciation rate from approximately 3.15% to 3.05% and reduce the annual requested increase in depreciation expense from \$7.0 million to \$4.3 million.²

Accounts 311, 312.1, 312.2, 314 – Steam Production Plant

The Company has agreed to lower the salvage costs from negative ten percent to negative five percent for the Jim Bridger plant to match the PacifiCorp rate that was recently approved by this Commission. Staff believes this change is reasonable for the shared facility. By changing the negative salvage costs, the requested depreciation expense drops by \$978,813 per year based on 2001 plant levels.

Accounts 331, 332.1, 332.2, 332.3, 333, 334 – Hydraulic Production Plant

In its original Application, the Company proposed a plant life equal to the term of each hydro facility's current Federal Energy Regulatory Commission's (FERC) operating license.³ Staff does not believe that the life of a hydro facility should be based solely on the term of the

¹ See Case No. PAC-E-02-5, Order No. 29265.

² Based on the \$2,900,657,420 of depreciable plant at the end of 2001.

³ The FERC regulates the use of each hydraulic production facility. Each facility must undergo a rigorous relicensing process at the end of its current license period. This process could make the facility more expensive to operate. Therefore, there is uncertainty associated with the FERC relicensing process. It should be considered as one potential useful life-limiting concern.

FERC license. There are other more important factors that should be considered, such as the actual projected physical life of the facility and any possible gain that might be realized if the property were sold or condemned prior to the end of that period. Although the parties' positions have been clearly defined through discussions with the Company, this philosophical difference will not be resolved in the anticipated Stipulation. Staff is satisfied that the Company is willing to consider other relevant factors in the future in addition to the FERC license term. In addition to recognizing Staff's concerns regarding the proposed lives of the hydro facilities, the Company has also agreed to more appropriately evaluate the negative salvage costs proposed for some items in these accounts. Although Staff has not endorsed all components of the calculated overall rate, we believe the end result is reasonable. It reduces the proposed depreciation expense by \$1,051,464 per year based on 2001 plant levels.

Accounts 354 and 355 -Transmission Equipment

The Company's Application requested a significant increase in the negative salvage costs associated with accounts 354 and 355.⁴ These increases appear out of line with the rates recently approved for PacifiCorp and those used by other companies in the electric industry. After reviewing additional data for these accounts, the Company agreed to make some reductions in the proposed negative salvage rates. Instead of a negative salvage rate of 50%, the Company has agreed to a negative salvage of 30% for account 354. Account 355 will be adjusted from negative 75% to negative 60%. Staff supports these changes as reasonable. The combined effect of the two changes will reduce the proposed depreciation expense by \$656,153 based on 2001 plant levels.

Accounts 391.2 and 391.21 - Computer Equipment

These accounts contain computer equipment that is accounted for by vintage year on a total dollar basis, and is therefore amortized instead of depreciated. This is consistent with past Company and industry practices. In its Application, the Company proposed changing the lives of its computer equipment from eight years to five (Account 391.2) and six (Account 391.21) years. While Staff supports these changes, Staff did not support the methodology proposed to accelerate amortization of the older equipment. The Company originally proposed an

⁴ Account 354 contains transmission towers and fixtures while account 355 contains transmission poles and fixtures.

accelerated amortization by increasing the rate for all computer equipment. The Stipulation will provide a more reasonable amortization period by amortizing older equipment at a faster rate than the newer equipment. Under the Stipulation, the Company will amortize equipment purchased before 2001 at a faster rate and equipment purchased after 2001 at the proposed five-year and six-year rates. Idaho Power will establish additional subaccounts to properly account for the different amortization rates. Staff believes this is a reasonable compromise because this methodology will allow the Company to recover the amounts related to the older equipment sooner while amortizing the newer equipment over its proper life.

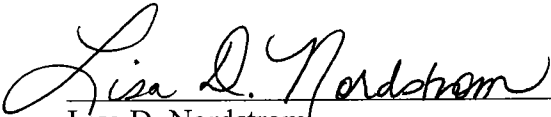
SUMMARY AND RECOMMENDATION

The anticipated Stipulation will reduce the overall requested rate from approximately 3.15% to 3.05% and reduce the annual requested increase in depreciation expense from \$7.0 million to \$4.3 million.⁵ The stipulated rates will be reflected in the upcoming Idaho Power rate case as an adjustment to decrease the pro-forma depreciation expense. Staff believes this Stipulation will be in the best interest of all Idaho customers. The stipulated rates will be a reasonable reflection of the lives and salvage costs of the Company's depreciable assets. Based on the information stated above Staff believes:

1. That the anticipated Stipulation will reflect the agreements in principle Staff identified in these comments. If the Stipulation embodies the principles outlined above, it will provide reasonable rates for Idaho Power and its customers and should be approved as filed. Staff anticipates a signed stipulation will be filed with the Commission on or about September 9, 2003 (the Company's Reply Comment deadline).
2. That the Company should bring another depreciation study before the Commission within five years to better allow the Company and the Commission to respond to the changing needs of the Company and its customers.

⁵ Based on the \$2,900,657,420 of depreciable plant at the end of 2001.

Respectfully submitted this 29th day of August 2003.



Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Alden Holm
Michael Fuss

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CERTIFICATE OF SERVICE

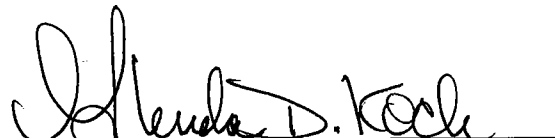
I HEREBY CERTIFY THAT I HAVE THIS 29TH DAY OF AUGUST 2003, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-03-07, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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