

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE PETITION OF )**  
**IDAHO POWER COMPANY FOR AN )** CASE NO. IPC-E-05-21  
**ACCOUNTING ORDER MODIFYING THE )**  
**ACCOUNTING PROCEDURES FOR )**  
**PRELIMINARY SURVEY AND )** ORDER NO. 29904  
**INVESTIGATION CHARGES )**

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In June 2005 Idaho Power Company filed a Petition seeking a modification of a prior accounting order concerning the accounting procedures for booking “preliminary survey and investigation” (PS&I) costs. Idaho Power incurs preliminary survey or investigation charges when evaluating future generation or transmission projects. On July 15, 2005, the Commission issued a Notice of Modified Procedure requesting public comments on the Petition. Only the Commission Staff filed comments. On September 1, 2005, the Company filed a response to Staff comments. In this Order we establish new accounting procedures for PS&I costs.

**THE PETITION**

***A. The Current Accounting Procedures***

The Company’s Petition recognizes that the current accounting procedures for preliminary survey and investigation (PS&I) charges are addressed in Order No. 17499, two Company letters, and a Commission letter dated December 21, 1983. Under the existing procedures, the Company separates all PS&I costs in two areas: in-house costs and external costs. PS&I costs for new projects which are “‘internal in nature’ (that is incurred in-house) will be directly expensed in the period incurred.” Petition at 2 (emphasis original). Conversely, PS&I costs incurred in connection with any future projects

which are “external in nature” (that is incurred other than in-house) [are] accumulated in Account 107 (CWIP) and transferred to Account 183 (preliminary survey and investigation charges) on a monthly basis. No AFUDC will be accrued on these charges. At the end of each year, the applicable costs collected in Account 183 during the year will be transferred to Account 186 and amortization of these “external” costs will commence the following year over an appropriate time period. The specific amortization period for the current year’s expenditures will be determined by the Company and reviewed by Staff annually.

*Id.* at 3 (emphasis original).

The current accounting procedures provide that the expensing of PS&I costs are discontinued when either the Federal Energy Regulatory Commission (FERC) issues a hydroelectric license, or when this Commission issues a Certificate of Public Convenience and Necessity to construct generation or transmission facilities. The Petition states that any

internal or external charges incurred after receipt and acceptance of the [FERC] final construction license will be accumulated in construction work in progress (Account 107), and the Company will commence accruing an allowance for funds used during construction (AFUDC) on such charges. Thus, all costs incurred after receipt and approval of [a Commission issued Certificate or] a final [FERC] license to construct until commercial operation will be capitalized in the traditional manner.

*Id.*

Idaho Power asserts that the present accounting protocols for PS&I charges are incompatible with this Commission's Integrated Resource Plan (IRP) process. The IRP is a planning document that generally describes how Idaho Power intends to meet the load demands of its customers over the next 10 years. The Company further insists that the current accounting procedures are also out of step with the FERC relicensing process for hydroelectric facilities.

#### ***B. The Proposed Accounting Procedures***

Idaho Power proposes that it will collect both internal and external PS&I costs in Account 183 (PS&I) as long as the project is considered "viable." Viability of a project will be determined based upon whether the project is included in the Company's IRP. If the project is determined viable (i.e., included in the IRP), the Company proposes that PS&I costs remain in Account 183 "without any accumulation of AFUDC, until appropriate licenses and/or Certificates of Public Convenience and Necessity are obtained." Petition at 5. Once licenses or certificates are obtained, the Company would then transfer those costs to Account 107 (Construction Work in Progress (CWIP)), and AFUDC will begin to accumulate before subsequent transfer to the appropriate plant-in-service account. *Id.*

If the project is determined not viable (i.e., not included in the Company's IRP), then Idaho Power proposes that the PS&I costs accumulated in Account 183 be transferred to Account 182.3 (Other Regulatory Assets). Expenses in Account 182.3 will be amortized over a defined period of time. If the total amount of the project does not exceed \$250,000, that amount will be fully amortized in one year. If the accumulated project costs range from \$250,000 but less than

\$1 million, the costs will be amortized over three years. If the project amount exceeds \$1 million, the amount will be amortized over five years.

#### **STAFF COMMENTS**

Staff recommended that the Commission issue a new accounting order. Staff agreed with the Company that the new accounting order should conform to the current FERC Uniform System of Accounts (USOA) instructions. Staff believed that it was appropriate to book PS&I charges to Account 183 and that amounts charged to this account will not qualify for accrual of AFUDC. If construction is authorized, then the qualifying amounts from Account 183 are transferred to Account 107 (CWIP) before subsequently transferring to a plant-in-service account when complete. Staff Comments at 4. If no additional construction is required the amounts will be transferred to the appropriate plant account.

Staff made the following recommendations:

1. The Company should file detailed yearly reports with the Commission concerning all charges booked to Account 183, with enough detail for Staff to properly identify each project, the initial date expenses are booked to the project, and all additions or deletions for each project. The report shall track the charges until such time as the charges are transferred to Account 107 (CWIP), including the subsequent transfer to the appropriate plant-in-service account upon project completion, or to Account 182.3.
2. The Company should provide the corresponding information set out above for Account 182.3 on annual basis.
3. The Company should provide the accounting information for the amortized and the unamortized balance of the PS&I charges associated with projects that are deemed non-viable.

Staff did express one concern about the accrual of AFUDC associated with construction projects. In particular, Staff was concerned about the accrual of AFUDC in instances where authorization has been received but construction has not started, or where construction has started but has been substantially delayed. Staff asserted that accruing AFUDC prior to a delayed start of construction or during a long construction delay is not reasonable. Consequently, Staff recommended that recovery of PS&I charges (including accrued AFUDC) should be determined at the time recovery is requested. The Commission should expressly retain

the right to determine whether an adjustment of booked AFUDC is appropriate if there is a long delay in construction.

### THE COMPANY'S REPOSE

In the Company's response, it made two clarifications to the Staff comments. First, Idaho Power maintained that once construction licenses or certificates are obtained, the Company would transfer these costs to Account 107 (CWIP) and AFUDC would begin to accumulate. Second, the Company noted that when transferring PS&I charges, those costs would be transferred to Account 107 (CWIP) with subsequent transfer to the proper plant-in-service account upon project completion, or to Account 182.3. Reply at 2. The Staff agreed with these clarifications.

The Company next addressed Staff's recommendation about annual reports. If the Commission desires annual tracking reports for PS&I charges, then the Company recommended that such reports be due on a calendar basis no later than July 1 of the following year. This would allow the Company to marshal its annual report information on or before March 15 so that it could provide the information to the Commission by July 1. *Id.* at 4.

The Company did object to the Staff's recommendation that AFUDC not be allowed in instances where construction projects are stalled or delayed. Idaho Power urged the Commission to consider two points concerning the disallowance of previously booked AFUDC. First, when AFUDC is calculated, the Company reports income, which increases the Company's earnings for the reporting period. If previously booked AFUDC income is disallowed in the future, then the carrying amount of the asset is reduced by that amount and a negative effect upon income occurs. This results in the Company's earnings increasing in one year only to be reduced in a future year. Idaho Power maintained that financial "accounting standards adequately address this issue by denying inclusion of income unless the Company can adequately demonstrate that it has been substantially assured by the regulators that the Company will be allowed the recovery of the AFUDC amount at that time it is originally booked." Reply at 3 (emphasis added).

Second, the Company noted that *Idaho Code* § 61-502A requires that the Commission "must allow a just, fair and reasonable allowance for funds used during construction or similar account to be accumulated, computed in accordance with generally accepted accounting principles." "Clearly, this requirement is not discretionary on the part of the

Commission.” Reply at 3. In other words, the Company asserted that because the Legislature prohibits including CWIP in rate base, the Commission must allow AFUDC.

The Company does concede that if it has willfully and without justification intentionally or negligently delayed a construction project, then it would be reasonable for the Commission to disallow a portion of AFUDC. However, the Company stated that any disallowance of AFUDC would be unreasonable “if the delay in the project was caused through no fault of the Company and due to a cause external to the Company.” *Id.* at 4.

### **DISCUSSION AND FINDINGS**

After reviewing the Petition and the comments of the parties, we find it reasonable to issue new accounting procedures for the booking of preliminary survey and investigation (PS&I) costs. *Idaho Code* § 61-524. We agree with the parties that the booking of PS&I costs should be based upon project viability as part of the Company’s Integrated Resource Plan (IRP) process. We further find that adoption of new accounting procedures should be in alignment with the FERC relicensing process for hydroelectric facilities. We also find the proposed treatment for non-viable projects, including the amortization limits and periods, to be reasonable.

We now turn to the parties’ dispute regarding the accrual of AFUDC in instances where construction projects are stalled or delayed. We understand Staff’s concern regarding the accrual of AFUDC when there are substantial delays in starting construction, or substantial delays during construction. Conversely, we recognize the Company’s concern that accounting procedures should be uniform and disallowing AFUDC may affect the Company’s earnings.

In striking a balance between these competing concerns, we find it reasonable that the Company notify the Staff when the start of construction is delayed for more than 60 days, or when there is a delay during construction in excess of 60 days. Requiring the Company to report construction delays in a timely fashion will provide the Staff an opportunity to evaluate the reasonableness of the delay and whether to seek an Order from the Commission to temporarily suspend the accrual of AFUDC. To avoid a fluctuation in earnings if AFUDC is subsequently disallowed, Idaho Power could voluntarily cease accruing AFUDC on projects with more than a 60-day delay. Otherwise recovery of AFUDC will be determined when the prudence of including the plant in rate base is finally determined.

In summary, we find it reasonable to require that Idaho Power:

1. Should file detailed yearly reports with the Commission concerning all PS&I booked to Account 183, with enough detail for Staff to properly identify each project, the initial date expenses are booked to the project, and all additions or deletions for each project. The report shall track the charges until such time as the charges are transferred to plant-in-service or Account 182.3.
2. The Company shall provide the corresponding information set out above for Account 182.3 on annual basis.
3. The Company shall provide the accounting information for the amortized and the unamortized balance of the PS&I charges associated with projects that are deemed non-viable.
4. The Company shall submit its annual PS&I tracking reports based upon the preceding calendar year no later than July 1 of each year.
5. After a project is authorized, the Company shall file a report with the Commission Staff when the start of construction is delayed for more than 60 days, or when there is a delay of more than 60 days during construction. This report shall be filed no later than 14 days after the 60-day delay has occurred.

### **ORDER**

IT IS HEREBY ORDERED that the Petition filed by Idaho Power Company seeking modification of a prior accounting order is granted as outlined in greater detail above. This accounting order supercedes Order No. 17499.

IT IS FURTHER ORDERED that the Company file detailed yearly reports with the Commission concerning all charges booked to Account 183 as set out in the body of this Order. The report shall track the PS&I charges until such time as the charges are transferred to the appropriate plant-in-service account upon project completion, or to Account 182.3. The Company shall submit the tracking reports for PS&I charges accrued during the previous calendar year no later than July 1 of each year.

IT IS FURTHER ORDERED that non-viable PS&I costs accumulated in Account 183 be transferred to Account 182.3 and these expenses amortized as set out above. The Company shall submit the tracking reports for PS&I charges accrued during the previous calendar year no later than July 1 of each year.

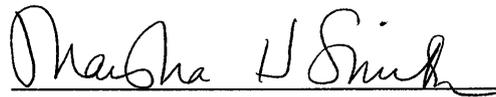
IT IS FURTHER ORDERED that after a project has been approved and AFUDC is accruing, the Company report to the Staff any delay in the start of construction or any delay during construction in excess of 60 days. Such report shall be due no later than 14 days after the 60-day delay occurred.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-05-21 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

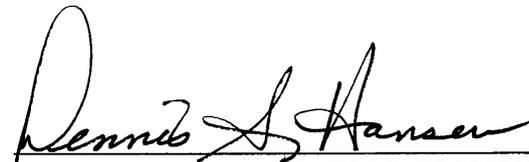
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31<sup>st</sup> day of October 2005.



PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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