



IDAHO POWER COMPANY
P.O. BOX 70
BOISE, IDAHO 83707

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12:40
PUBLIC UTILITIES COMMISSION

BARTON L. KLINE
Senior Attorney

April 4, 2006

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-06-06
Application For Accounting Order Addressing
Deferral of Costs Related to Development of
Grid West

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power Company's Application for an accounting order addressing the deferral of costs related to the development of Grid West.

I would appreciate it if you would return a stamped copy of this transmittal letter in the enclosed self-addressed, stamped envelope.

Very truly yours,

Barton L. Kline

BLK:jb
Enclosures

BARTON L. KLINE ISB #1526
MONICA B. MOEN ISB #5734
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
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JUL 17 2006
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PUBLIC UTILITIES COMMISSION

Attorneys for Idaho Power Company

Express Mail Address

1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AN)
ACCOUNTING ORDER ADDRESSING)
THE DEFERRAL OF COSTS RELATED)
TO THE DEVELOPMENT OF GRID)
WEST.)
_____)

CASE NO. IPC-E-06-06
APPLICATION OF IDAHO
POWER COMPANY

COMES NOW Idaho Power Company ("Company" or "Idaho Power") and, pursuant to Idaho Code § 61-524 and RP 52, hereby requests the Idaho Public Utilities Commission ("Commission") issue its Order (1) confirming that the Company's accounting treatment of Grid West development costs is consistent with the Commission's Uniform System of Accounts; and (2) confirming that, in accordance with the Uniform System of Accounts, Idaho Power is permitted to defer costs incurred in

association with the development of Grid West for consideration in a future ratemaking proceeding. This Application is based on the following:

I.

BACKGROUND AND SUMMARY OF EXPENSES

1. Idaho Power is one of the transmission owners participating in the development of a new, regionally-focused independent transmission provider (“ITP”) known as Grid West, formerly known as RTO West. These activities commenced in response to FERC Order 2000,¹ and evolved to emphasize the specific problems and opportunities of providing transmission services in the region. Unfortunately, even with Idaho Power’s best efforts, Grid West’s failure appears imminent. Idaho Power believes that Grid West is unlikely to survive the numerous transmission owner withdrawals, paralyzed decision-making and general lack of support. This rapid unwinding was not anticipated and necessitates the filing of this Application.

II.

GRID WEST DEVELOPMENT COSTS INCURRED BY IDAHO POWER

2. Idaho Power’s expenditures related to the development of Grid West have fallen into two general categories of costs. The first are costs incurred in the form of loans to Grid West under a series of funding agreements (hereinafter collectively referred to as the “Funding Agreements”) established by the transmission owners

¹ Regional Transmission Organizations, 89 FERC 61,285 (1999), order on reh’g, Order No. 2000-A, 90 FERC 61,201 (2000) (hereinafter “Order 2000”). Order 2000 requires every public utility that owns, operates or controls facilities used for the transmission of electric energy in interstate commerce to file a proposal to participate in a regional transmission organization (“RTO”) or make an alternative filing explaining the efforts made to participate in an RTO, the reasons the entity cannot make a filing to participate in an RTO, and the specific plans, if any, the utility has to participate in an RTO. 18 C.F.R. 35.34 (d) (2004).

forming Grid West, where each of the transmission owners agreed to provide an allocated share of its funding needs.

3. The Funding Agreements were entered into to enable the transmission owners to pool resources and achieve economies of scale in financing the development of Grid West, and the preparation of regulatory filings. Funding Agreement expenditures broadly include contracting with consultants, experts, and others; purchasing of small office equipment, supplies, rent for office space, and public meeting expenses; and filing fees and incidental and administrative costs.

4. Under the Funding Agreements, funds provided by the transmission owners (other than Bonneville Power Administration) are considered loaned amounts to be repaid with interest by Grid West when sufficient third-party financing became available, but not later than the commencement of transmission services. Interest on all outstanding Grid West loan balances has been calculated at the same interest rates from time to time as established by FERC for refunds pursuant to 18 C.F.R. §35.19a.

5. The second category of Grid West development costs are the internal incremental costs incurred directly by Idaho Power in the development of Grid West. This category of costs consists of the disbursement of cash and the payment of costs in addition to amounts loaned to Grid West. These expenditures relate to incremental travel related expenses of personnel working on development and regulatory matters (not the salaries and benefits of Idaho Power personnel themselves), legal fees and carrying costs of the funds associated with all of the above.

6. To date, Idaho Power has loaned a total of \$1,274,158, including accrued interest, to Grid West and expended a total of \$2,594,318 in incremental

internal costs including carrying costs. Idaho Power believes that Idaho's share of the loaned amounts and incremental internal costs, allocated by using Idaho's 86.62% share of Idaho Power's total system transmission capacity, should be \$3,350,874. Attachment 1 shows how the percentage allocation of system transmission capacity costs between Idaho Power's three jurisdictions, including Idaho's 86.62% share, was determined.

III.

ACCOUNTING TREATMENT FOR GRID WEST DEVELOPMENT COSTS INCURRED BY IDAHO POWER

7. Idaho Power has put in place an accounting procedure to separately capture on its books and records all incremental costs directly associated with the development of Grid West. Idaho Power has accounted for its Grid West development costs based upon guidance provided by the federal *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act*, 18 C.F.R. Ch. I, Part 101 (2003) (the "*Uniform System of Accounts*"), which the Commission has adopted by reference. Because these expenditures arose as a direct result of a FERC order and due to the protracted nature of these activities and their rising costs, in 2004 Idaho Power obtained confirmation of its accounting practices from FERC.² FERC's Letter Order is enclosed as Attachment 2.

8. Since Grid West development costs have been incurred in response to Order 2000, Idaho Power interprets the *Uniform System of Accounts* as permitting its Grid West development costs to be characterized as a regulatory asset.

² Letter Order, FERC Docket No. AC03-78-000 (Feb. 3 2004) ("FERC Letter Order").

To date, Idaho Power has been operating with the belief that because the benefit from these expenditures will not be realized until some future time, these expenses have been properly deferred under the *Uniform System of Accounts*, which permits the deferral of these expenses over a reasonable period of time to when the benefits are realized. Accordingly, prior to FERC's Letter Order, Idaho Power charged all Grid West development costs identified in Section II above to Account 186 (Miscellaneous Deferred Debits).

9. FERC concluded that it was proper for Idaho Power to defer (rather than expense as occurred) its internal incremental Grid West development costs by charging them to Account 186. However, FERC concluded that the loans to Grid West were not a deferral. The loans should be recorded in Account 124 as a long-term notes receivable with interest income recorded in Account 419 (Interest and Divided Income). Idaho Power subsequently reclassified the loans to Grid West pursuant to FERC's Letter Order. FERC's discussion of Idaho Power's account treatment is as follows:

Account 186 provides for the inclusion of amounts that are not provided for elsewhere, such as miscellaneous work in progress and unusual or extraordinary expenses, and items where the proper final disposition is uncertain. The Commission has approved the deferral of RTO startup costs to Account 186 in other instances. Therefore, Idaho Power's internal RTO West development costs (including carrying charges) are properly deferred in Account 186. Idaho Power's loans to RTO West are more appropriately classified as long-term notes receivable that should be recorded in Account 124. Interest income realized on the notes should be recorded in Account 419, Interest and Dividend Income.³

³ FERC Letter Order p. 3 (internal footnotes omitted).

10. In the past few weeks, several prior Grid West participants have announced their withdrawal from further Grid West participation. This recent lack of continued support for Grid West has caused Idaho Power to conclude that repayment of its Grid West development costs (either its incremental internal Grid West development costs or loans to Grid West) is not sufficiently certain to occur. Accordingly, Idaho Power interprets the FERC's Letter Order as requiring those amounts to be transferred to Account 182.3 (Regulatory Assets and Liabilities) for amortization and recovery in rates. FERC's discussion in the Letter Order is as follows:

The instructions to Account 182.3 provide in part that this account shall include specific expenses that would be included in net income determinations in one period under the general requirements of the USofA but for it being probable that such expenses will be included in a different period for purposes of developing rates. The term "probable", as used in the definition of regulatory assets refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved. Therefore, Idaho Power may transfer the RTO West development costs not reimbursed by the RTO to Account 182.3, if these criteria are met.⁴

11. The confirmation sought in this request is for regulatory accounting purposes only and is not intended to be a finding that the development costs are just and reasonable, prudently incurred, or otherwise approved for ratemaking treatment at this time. Idaho Power will address amortization of these deferred costs in its next general revenue requirement proceeding.

12. Service of pleadings, exhibits, orders and other documents relating to this proceeding should be served on the following:

⁴ FERC Letter Order p. 3 (citations included).

Barton L. Kline, Senior Attorney
Idaho Power Company
P. O. Box 70
Boise, Idaho 83707
bkline@idahopower.com

John R. Gale, Vice President
Regulatory Affairs
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
rgale@idahopower.com

NOW, THEREFORE, Idaho Power respectfully requests that the Commission issue its order:

1. Confirming that Idaho Power's accounting treatment of its Grid West development costs is consistent with the Commission's *Uniform System of Accounts* and, more specifically, Idaho Power seeks confirmation that:

(1) With regard to Idaho Power's incremental internal development costs:

a. It was proper for Idaho Power to record its incremental internal Grid West development costs (inclusive of carrying costs), in Account 186 (Miscellaneous Deferred Debits); and

b. Since Idaho Power believes that repayment through a Grid West tariff is not sufficiently certain to occur, it is proper for Idaho Power to transfer the incremental internal Grid West development costs (inclusive of carrying costs) to Account 182.3 (Regulatory Assets and Liabilities) for possible amortization and recovery in rates in the future.

(2) With regard to Idaho Power's loans to Grid West under the terms of funding agreements among Grid West and the participating utilities:

a. It was proper for Idaho Power to record the loans to Grid West under the terms of funding agreements among Grid West and its funding transmission owners (inclusive of interest), in Account 124 (Other Investments); and

b. Since Idaho Power believes the repayment of the loans to Grid West is not sufficiently certain to occur, it is proper for Idaho Power to transfer the notes to Account 182.3 (Regulatory Assets and Liabilities) for possible amortization and recovery in rates in the future; and

2. Authorizing the Company to defer the Grid West development costs incurred by the Company as described in this Application.

Respectfully submitted this 4th day of April, 2006.



BARTON L. KLINE
Attorney for Idaho Power Company

ATTACHMENT 1

IDAHO POWER COMPANY
JURISDICTIONAL SEPARATION STUDY - REVENUE REQUIREMENT
FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2005

1	2	3	DESCRIPTION	ALLOC/ SOURCE	TOTAL SYSTEM	RETAIL		OREGON OPUC	FERC		
						IDAHO IPUC	SALES FOR RETAIL		SALES FOR RETAIL	FIRM TRANSFER	
965	***	TABLE 14 - ALLOCATION FACTORS ***									
966											
967		CAPACITY RELATED KW									
969		SYSTEM TRANSMISSION SERVICE @ GENERATION LEVEL	D11	2,426,723.7	2,102,068.6	104,412.0	16,999.1	203,244.0			
1077	***	TABLE 16 - ALLOCATION FACTORS - RATIOS ***									
1078											
1079		CAPACITY RELATED KW									
1081		SYSTEM TRANSMISSION SERVICE @ GENERATION LEVEL	D11	100.00%	86.62%	4.30%	0.70%	8.38%			

ATTACHMENT 2

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D. C. 20426

In Reply Refer To:
OED-DRAP
Docket No. AC03-78-000

FEB 3 2004

VanNess Feldman
Attention: Mr. Malcolm C. McLellan
Attorney for Idaho Power Company
821 Second Avenue, Suite 2000
Seattle, WA 98104-1519

Thank you for your letter dated September 29, 2003, filed on behalf of Idaho Power Company (Idaho Power), requesting confirmation that its accounting treatment of RTO West development costs is consistent with the Uniform System of Accounts (USofA). Specifically, it seeks confirmation that it is proper to defer for future recovery past and future RTO West development costs in Account 186, Miscellaneous Deferred Debits, and transfer to Account 182.3, Other Regulatory Assets, amounts not reimbursed by an RTO.

Idaho Power's accounting treatment is consistent with the USofA, provided that it records the loans to RTO West in Account 124, Other Investments. Recognition of the costs as a regulatory asset in the event that they are not reimbursed by the RTO would only be appropriate if the amounts would otherwise be chargeable to expense at that time and Idaho Power has concluded based upon all relevant information, that recovery in rates in a different period is probable.¹

Background

Idaho Power is one of the transmission owners participating in the development of a regional transmission organization (RTO) known as RTO West, in response to Order No. 2000.² Considerable work remains to achieve a fully approved and operational RTO West. The work includes the development of a tariff, further refinement of the market design, and the securing of state and federal approvals as well as the approvals of the management and/or boards of directors of each of the filing utilities.

¹ 18 C.F.R. Part 101, Definition No. 30.

² The Commission granted, on a conditional basis, their request to create RTO West on April 26, 2001, 95 FERC ¶61,114 (2001).

AC03-78-000

- 2 -

Since its RTO development costs have been and continue to be incurred in response to Order No. 2000, Idaho Power interprets the USofA as permitting its RTO development costs to be characterized as a regulatory asset. However, since the benefit will occur largely in the future from these expenditures, it further interprets the USofA as permitting the deferral of these expenses over a reasonable period of time where the benefits are realized. Idaho Power believes that its internal RTO development costs (including carrying costs) will be recovered through RTO West's transmission tariff within Idaho Power's Company Rate for load service, and Idaho Power's loans³ to RTO West will be re-paid by RTO West and recovered by RTO West in its transmission tariff within RTO West's Grid-Management Charge. Accordingly, Idaho Power is booking all RTO development costs in Account 186.

Although Idaho Power is booking its RTO development costs as a miscellaneous deferred debit in Account 186 on the belief that they will be reimbursed through an RTO as a condition of transferring its facilities to the RTO, it believes that it is not limited to recovering its deferred RTO development costs only in this manner. Idaho Power believes that it has the authority to seek Commission approval under Section 205 for alternative means of recovering these deferred costs. In addition, Idaho Power believes that it has the authority to seek recovery of these deferred costs through retail rates.

Idaho Power seeks confirmation that:

1. It is proper to defer for future recovery past and future incremental internal RTO West development costs (inclusive of carrying costs), separately captured on its individual company books, in Account 186;
2. It is proper to defer for future recovery RTO development costs loaned to RTO West under the terms of funding agreements among participating RTO utilities in Account 186;
3. As Idaho Power receives reimbursement of deferred RTO development costs (incremental internal costs and/or loans to RTO West) from an RTO upon the transfer of control of its transmission facilities to the RTO, Idaho Power may credit payment to Account 186 and debit Account 131, Cash, for an equivalent amount; and

³ The loans to RTO West are pursuant to funding agreements established by the transmission owners forming RTO West. The funding agreements were entered into to finance the retention of experts and facilitators to further the development of RTO West, and to assist in the preparation of the regulatory filings required for the RTO.

AC03-78-000

- 3 -

4. The deferred RTO development costs (incremental costs and/or loans to RTO West) not reimbursed by an RTO may, upon a proper future filing with the Commission, become a regulatory asset and be transferred to Account 182.3 for recovery in rates (wholesale or retail), or alternatively, may be written off immediately to Account 426.5, Other Deductions.

Discussion

Account 186 provides for the inclusion of amounts that are not provided for elsewhere, such as miscellaneous work in progress and unusual or extraordinary expenses, and items where the proper final disposition is uncertain. The Commission has approved the deferral of RTO startup costs to Account 186 in other instances.⁴ Therefore, Idaho Power's internal RTO West development costs (including carrying charges) are properly deferred in Account 186. Idaho Power's loans to RTO West are more appropriately classified as long-term notes receivable that should be recorded in Account 124. Interest income realized on the notes should be recorded in Account 419, Interest and Dividend Income.⁵

The instructions to Account 182.3 provide in part that this account shall include specific expenses that would be included in net income determinations in one period under the general requirements of the USofA but for it being probable that such expenses will be included in a different period for purposes of developing rates. The term "probable", as used in the definition of regulatory assets refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved. Therefore, Idaho Power may transfer the RTO West development costs not reimbursed by the RTO to Account 182.3, if these criteria are met. However, if rate recovery of all or part of the deferred costs is later disallowed, the disallowed costs should be charged to Account 426.5 in the year of the disallowance.

The foregoing determination is for accounting purposes only and does not constitute a finding that the costs are just and reasonable, prudently incurred, or otherwise approved for ratemaking treatment.

⁴ See the approval for Northeast Utilities Service Company in Docket No. AC02-6-000, on March 14, 2002, relating to NE ITC and Northeastern RTO and Florida Power Corporation in Docket No. AC01-10-000, on December 14, 2000, relating to the GridFlorida RTO.

⁵ This is consistent with the Commission's response to Sierra Pacific Power Company in Docket No. AC94-11-000, dated January 4, 1994.

AC03-78-000

- 4 -

This letter order constitutes final agency action. To request that the Commission rehear your case, you must file a request within 30 days of the date of this letter order (see 18 C.F.R. § 385.713).

Sincerely,

A handwritten signature in black ink, appearing to read "James K. Guest", with a long horizontal flourish extending to the right.

James K. Guest
Director, Division of Regulatory
Accounting Policy