

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AN) CASE NO. IPC-E-06-06
ACCOUNTING ORDER ADDRESSING THE)
DEFERRAL OF COSTS RELATED TO THE)
DEVELOPMENT OF GRID WEST) ORDER NO. 30157
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On April 4, 2006, Idaho Power Company filed an Application requesting an accounting order from the Commission authorizing the deferral of costs the Company incurred relating to the development of a regional transmission organization (RTO). Idaho Power alleges it participated in efforts to develop an RTO, called Grid West, pursuant to orders issued by the Federal Energy Regulatory Commission (FERC). The Application states that Pacific Northwest electric utilities have been involved in the RTO development process since 2000, and that the costs incurred by the utilities were to be repaid through surcharges on customers after the RTO became operational. It now appears the development of Grid West is unlikely, and Idaho Power requests authorization to defer the amounts it loaned to Grid West or expended, with interest, in the development process.

Idaho Power states its expenditures relating to the development of Grid West fall into two categories. The first category is loans Idaho Power made to Grid West under a series of funding agreements. The second category is Idaho Power's internal incremental costs, consisting of the disbursement of cash and payment of costs in the development process. Idaho Power states it loaned a total of \$1,274,158 to Grid West and expended a total of \$2,594,318 in incremental internal costs. The Idaho jurisdictional allocation of the total amount loaned and expended is \$3,350,874.

On June 29, 2006, the Commission issued a Notice of Application and Notice of Modified Procedure to process Idaho Power's Application. During the comment period established by the Notice, written comments were filed by the Commission Staff and by the Industrial Customers of Idaho Power (ICIP). Both Staff and ICIP support an accounting order for deferral of the actual amount loaned by Idaho Power to Grid West. Staff and ICIP both object to the deferral of the internal expenses incurred by Idaho Power. Staff also opposes deferral of the interest accrued on the loans or a carrying charge on the deferred balance. Staff

recommended Idaho Power maintain a separate sub-account for the deferral and begin amortization of the deferred balance at the conclusion of its next general rate case or on January 1, 2010, whichever first occurs, with a five-year amortization period. ICIP recommended the Commission require amortization of the costs to begin immediately over a three-year period.

On September 22, 2006, Idaho Power filed reply comments in response to the comments filed by Staff and ICIP. Idaho Power argues that it should be allowed deferral of interest on the loan amounts, a carrying charge on the deferred balance, and recovery of the incremental internal costs it identified in its Application. Idaho Power believes Staff's recommendation regarding amortization is reasonable.

The Commission finds on the record presented that it is appropriate to approve Idaho Power's Application insofar that it requests authorization to defer the amount the Company loaned to Grid West. Idaho Power and other electric utilities that own transmission facilities in the northwest were compelled by FERC orders to participate in the development of an RTO. If successful, the RTO would have acquired control of the companies' transmission facilities and implemented a surcharge on transmission customers to repay the loans made by the utilities. FERC's goal was the development of an active wholesale electric market that might have produced long-term benefits to retail customers. Idaho Power's response to the FERC orders, and the loans it made to Grid West, were prudent and in the public interest. It would be unfair to disallow deferral of the amount Idaho Power loaned to Grid West.

The Commission also finds, however, that Idaho Power is not entitled to defer for future recovery from its retail customers interest charges on the loans or its incremental internal costs, nor is the Company entitled to a carrying charge on the deferral account. Regulatory accounting principles require that expenditures to be included in customer rates must be used and useful; that is, beneficial to customers. The expenditures must also be incurred for a reasonable purpose at a reasonable amount. The internal costs requested here are the type of expenditure incurred as ordinary business expenses and are like other regulatory costs for meetings, workshops and proceedings. They are not deferred without prior approval and normally are part of the Company's overall budget, like other expenses, especially when they extend over numerous years.

Staff in its comments recommended that Idaho Power be allowed deferral of only the loan amounts because, although "Grid West ultimately provided no benefits to customers, the

expenses were extraordinary and unusual in nature and were mandated by FERC.” Staff Comments p. 2. In response, Idaho Power “disagree[d] with Staff’s assessment that RTO West-Grid West has been a complete failure,” asserting its belief that the Company’s participation in the RTO formation process has created value for customers: “A great deal of insight and experience as to how an independent regional transmission system operator would be chartered, would manage a regional transmission system and a better understanding of the problems, risks and benefits associated with an independent system operation regime has been gained by the RTO West-Grid West formation efforts.” Idaho Power Reply Comments p. 5. Idaho Power identified the potential benefit for its customers in the future: “In the Company’s opinion the efforts that went into developing RTO West-Grid West will provide benefits to customers if, in the future, it is determined that a cooperative, independent regional transmission organization should be developed and implemented in the Pacific Northwest.” Idaho Power Reply Comments p. 6.

The most persuasive argument for deferral of costs and ultimately recovery from customers is that Idaho Power was compelled to participate in the RTO formation process by FERC. Presumably FERC believed a northwest RTO would provide some benefit to the customers of the participating utility companies, including Idaho Power’s. Because Idaho Power participated in the process in good faith, it is fair to allow deferral of the loan amounts. We agree that the Company’s participation in the RTO discussions was prudent and beneficial. That is why we allow recovery of the loan amounts. It does not follow, because this RTO formation process was unsuccessful, that Idaho Power’s retail customers should bear more than the loan amounts for the Company’s participation in the process. Idaho Power anticipated that RTO West-Grid West would pay interest on the loans the Company made, but that was never assured. The internal costs are or should be included in the Company’s budget, especially because Idaho Power has been involved in these types of meetings for nearly a decade. On this record, there simply is no compelling reason to allow deferral of interest on the loans, or the internal costs expended by the Company. For the same reason, we do not authorize a carrying charge on the deferral account. We also find a five-year amortization period to be reasonable, and direct that the amortization begin as of January 1, 2007.

ORDER

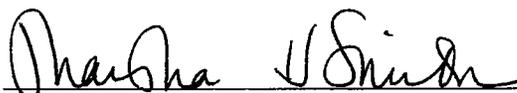
IT IS HEREBY ORDERED that Idaho Power is authorized to defer in a separate sub-account the principal amount that it loaned to RTO West-Grid West, specifically the amount allocated to its Idaho jurisdictional services. Idaho Power is authorized to amortize the deferral over a five-year period, beginning January 1, 2007.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

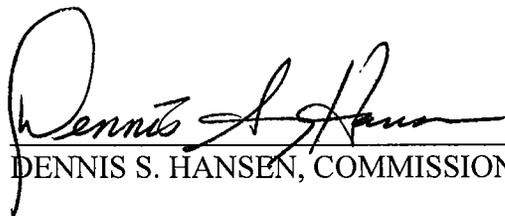
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 24th day of October 2006.



PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Barbara Barrows
Assistant Commission Secretary

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