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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 FOR AN) **CASE NO. IPC-E-06-19**
ACCOUNTING ORDER REGARDING)
AMERICAN FALLS REPLACEMENT DAM) **COMMENTS OF THE**
REFUNDING BONDS) **COMMISSION STAFF**
)

The Staff of the Idaho Public Utilities Commission, by and through it Attorney of Record, Donovan E. Walker, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure, issued on October 5, 2006, Order No. 30142, submits the following comments.

BACKGROUND

On September 7, 2006, Idaho Power Company (Company) filed an Application for an accounting order for authority to amortize the principal balance owed on American Falls Replacement Dam Refunding Bonds (the Bonds) over the remaining term of the Bonds and operating license of the American Falls Dam.

The Application

According to the Company's Application, in April 2000 the Company refinanced the Bonds to a variable rate, interest-only instrument. The principal amount of \$19,885,000 is due in full in February 2025, the same time that the Company's operating license expires at the American Falls Dam. The interest on the Bonds is currently being paid monthly and expensed to Water for Power (Account 536). The principal balance is currently recorded as a liability (Account 224200) with a corresponding deferred debit (Account 186727).

Idaho Power states that since refinancing the Bonds in 2000 it has not amortized the principal amount and has charged only the interest payments to the Water for Power expense. The Company states that as a result, Idaho customers have only been paying the interest portion of the debt since the 2003 general rate case (IPC-E-03-13). While this has resulted in lower overall rates in the short term, the principal balance and carrying charge will come due in the future, affecting rates.

The Company proposes that the deferred debit be amortized over the remaining life of the Bonds and the license. The Application states that by amortizing the deferred asset over the remaining lives of the Bonds and license, i.e., 2025, current retail customers receiving the benefits of this facility would fund the recovery of the principal portion just as they are currently funding the interest portion. The Company proposes amortizing the \$19,885,000 in equal monthly amounts beginning January 1, 2006 through January 31, 2025. This will result in an additional \$1,042,008.72 annual expense for the years 2006 through 2024, and one month's amortization of \$86,834.06 in 2025 before the Bonds mature February 1, 2025. The annual expense would be included in the next general rate case test year.

STAFF ANALYSIS AND REVIEW

Staff performed a review of the history of the Bond referred to in this Application dating back to 1976. Staff was interested in the accounting entries made by the Company in regards to this Bond. Staff's review covered applications and orders issued by the Commission with regard to this Bond. The history of this Bond is as follows.

In the 1970s, Idaho Power guaranteed the financing required to reconstruct the American Falls Dam in Power County, Idaho, in exchange for certain water rights for its hydroelectric plant on the site. Through April 2000, the guaranteed Bonds were structured in such a way that the Company made principal and interest payments on behalf of American Falls Reservoir

District that were recorded to Water for Power expense and included in the Company's operating and maintenance (O&M) expenses recovered through general rates. As principal payments were made, both the liability (Account 224200) and associated deferred asset (Account 186727) accounts were decreased.

In April 2000, the Company in conjunction with the American Falls Reservoir District refinanced the Bonds to a variable rate, interest-only instrument. The interest and amortization of refinancing costs on the Bonds is currently being paid monthly and expensed to Water for Power (Account 536). The Company in its filing states that since refinancing the bonds in 2000, it has not amortized the principal amount of \$19,885,000.

The result is that Idaho retail customers have only been paying the interest portion of the debt service since the 2003 general rate case (Case No. IPC-E-03-13). While this has resulted in lower overall rates in the near term, the remaining principal will come due in the future and will have to be recovered in rates at that time resulting in a mismatch of benefits and costs.

In early 2006, the Company in consultation with its external auditors, decided that the principal balance should be amortized over the remaining life of the Bonds and license. By amortizing the deferred asset over the remaining life of the Bonds and license (i.e., 2025) current retail customers receiving the benefits of this facility will fund the recovery of the principal portion just as they are currently funding the interest portion.

The Company proposes amortizing the \$19,885,000 in equal monthly amounts of \$86,834.06 beginning January 1, 2006 through January 31, 2025. This will result in an additional \$1,042,008.72 annual Water for Power expense for the years 2006 through 2024 and one month's amortization of \$86,834.06 in 2025 before the Bonds mature on February 1, 2025. This annual expense will be included in the next general rate case test year.

The April 2000 accounting entry to record the American Falls Bond obligation is:

Account 186727 Miscellaneous Deferred Debits –	
American Falls Water Rights	\$19,885,000
Account 224200 Other Long Term Debt –	
American Falls Bond Obligation	\$19,885,000

The proposed entry requested to record the monthly amortization of the Bond principal balance over the remaining life of the Bond and license: ($\$19,885,000 / 229 \text{ Months} = \$86,834.06$)

Account 536000 Operating Power Production Hydro Power –

Water for Power \$ 86,834.06

Account 186727 Miscellaneous Deferred Debits –

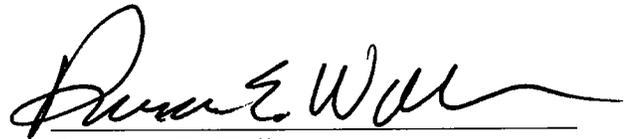
American Falls Water Rights \$ 86,834.06

Based on its review, Staff concludes that the transaction to record the principal amount of the Bonds and the current accounts and entries to record interest expenses are reasonable. Staff also believes the Application for an accounting order to amortize the Bonds over its remaining life is reasonable.

RECOMMENDATION

Staff recommends that the Commission approve the request for the proposed accounting order to modify the accounting treatment for the American Falls Replacement Dam Refunding Bonds and amortize the principal balance owed on the Bonds over the remaining term of the Bonds.

Respectfully submitted this *25th* day of October 2006.



Donovan E. Walker
Deputy Attorney General

Technical Staff: Lori Ellis
Terri Carlock

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 25TH DAY OF OCTOBER 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-06-19, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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