DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: NOVEMBER 16, 2006

SUBJECT: CASE NO. IPC-E-06-20 (Idaho Power)
REQUEST FOR AN ACCOUNTING ORDER REGARDING TREATMENT OF DSM PROGRAMS

Application

On September 11, 2006, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for an accounting order authorizing the Company to track its transactions for Demand Side Management (DSM) programs by implementing supplemental accounting treatment for its Energy Efficiency Rider.

As reflected in the Company's Application, since the 2002 approval of the Energy Efficiency Rider (Rider) by the Commission in Order No. 29026, DSM programs have been an integral part of the Company's operations. On May 13, 2005, in Order No. 29784, the Commission approved an increase in the funding and program expenditures associated with the Rider by authorizing the collection of 1.5% of customers' base revenues.

According to Generally Accepted Accounting Principles (GAAP), Statement of Financial Accounting Concept (SFAC) No. 6, ¶¶ 70, 78-81, 215, money collected and expended as part of a company's standard business needs to be reflected on the company's income statement.

Presently Idaho Power utilizes the following accounting entries to track rider funds:

1. As funding is received from customers, the following transaction is made to record cash received and set up the obligation to spend the money in the future on specific programs funded through the Energy Efficiency Rider:

Dr. Account 131000 – Cash
Cr. Account 254201 – Regulatory Liability

2. As DSM program expenditures are made, the following transaction is made to record cash paid and reduce the liability account:

   Dr. Account 254201 – Regulatory Liability
   Cr. Account 131000 – Cash

These accounting entries, the Company contends, accurately track DSM-related regulatory liabilities by recording all transaction activity exclusively through the Company's balance sheet accounts.

The Company in this Application, however, in addition to continuing the above mentioned balance sheet accounting entries, to be consistent with GAAP standards, proposes to implement an automatic "monthly voucher" to parallel the balance sheet activity in the Company's income statement. At the end of each month, the Company would make a set of accounting entries to recognize the expenditures made in serving the regulatory obligation along with an equal, offsetting entry to recognize the proceeds from Energy Efficiency Rider funds. To accomplish this objective, the proposed accounting entries are:

Dr. Account 908.xxx – Customer Service Operating Expense
Cr. Account 456.xxx – Other Operating Revenue

Because the incoming and outgoing dollars recognized in the income statement subaccounts will be of equal amounts, the net result of the Company's net income will be zero. Idaho Power contends therefore that there are no current economic tax liability changes or any other net financial effects from the inclusion of these income statement accounting entries. However, for external reporting purposes, the accounting trail of specific DSM related funding and expenditures will be much easier to track through income statement detail rather than relying solely on cumulative balance sheet activity.

In summary, the Company states that it is not proposing to change its current balance sheet accounting procedures regarding Energy Efficiency Rider funding. The Company seeks only to make parallel accounting entries to the income statement in an attempt to more closely comply with GAAP standards and auditing efficiencies. If the Company's proposed accounting entries are approved, it states that there will be no effect on the Company's net income. Nor, it states, are there any ratemaking implications associated with its proposal.

Comments

On September 28, 2006, the Commission issued Notices of Application and Modified Procedure in Case No. IPC-E-06-20. The deadline for filing comments was November 1, 2006. The Commission Staff was the only party to file comments. Staff recommends approval of the Application and proposed accounting changes.

Staff conducted an audit of the Company's current accounting treatment of DSM to determine how the Company accounts for DSM expenditures now and how the proposed accounting treatment will be used to track expenditures in the future. Staff is confident that the Company-proposed subaccounts and adjustment methodology for rate cases will provide the ability to ensure that any expenses associated with the DSM rider programs or funding will not be commingled or receive double recovery for ratemaking purposes. Staff is confident that the proposed DSM expenditure bookkeeping and accounting changes requested by Idaho Power will provide the Company with the ability to be consistent with GAAP accounting requirements. It will also allow parties to accurately track DSM rider revenues, expenditures and related regulatory liabilities. The proposed changes in accounting treatment, Staff agrees, will have no impact on the Company's net income and will make it easier to track the DSM detail in the income statement.

COMMISSION DECISION

Idaho Power in Case No. IPC-E-06-20 has requested an accounting order authorizing proposed treatment of DSM programs. The Company is not proposing to change its current balance sheet accounting procedures regarding Energy Efficiency Rider funding. The Company seeks to make only parallel accounting entries to the income statement in an attempt to more closely comply with GAAP standards and auditing efficiencies. If the Company's proposed accounting entries are approved, there will be no effect on the Company's net income. Nor, as the Company states, are there any ratemaking implications associated with its proposal. Staff recommends that the Company's Application be approved. Does the Commission agree?

Scott Woodbury

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