

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER	)	
COMPANY'S APPLICATION FOR APPROVAL	)	CASE NO. IPC-E-15-17
OF LONG-TERM MAINTENANCE PROGRAM	)	
CONTRACT WITH SIEMENS ENERGY, SALE	)	
OF SPARE PARTS INVENTORY TO SIEMENS	)	ORDER NO. 33391
ENERGY, AND DEFERRAL OF ASSOCIATED	)	
COSTS	)	

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On June 5, 2015, Idaho Power Company (the "Company") applied to the Commission for an Order approving the Company's: (1) long-term program contract (the "Contract") with Siemens Energy under which Siemens agrees to maintain the Company's three gas plants; (2) sale and transfer to Siemens of \$21.9 million in spare parts; and (3) proposed accounting treatment for the transaction. The Company does not seek to change customer rates at this time.

On June 21, 2015, the Commission issued a Notice of Application and a Notice of Modified Procedure. The Commission invited interested persons to file written comments by August 27, 2015, and the Company to file a reply by September 3, 2015. The Commission also scheduled a September 9, 2015 public hearing in accordance with *Idaho Code* § 61-328 (governing the sale of utility property). *See* Order No. 33340.

The Industrial Customers of Idaho Power ("ICIP") intervened as a party. ICIP and Commission Staff filed the only comments and supported the Company's Application except for the proposed accounting treatment. The Company then filed reply comments. The public hearing was held, with the Company's witnesses testifying in support of the Application.

Based on our review of the record, including the Application, the comments, and testimony, we issue this Order granting the Company's Application for approval of the proposed Contract and sale of parts to Siemens Energy. We also approve a deferred accounting treatment for the transaction as described in Section C, below.

### APPLICATION

In its Application, the Company explains that it owns and operates three natural gas plants in Idaho: the Danskin and Bennett Mountain single-cycle combustion turbine (SSCT) plants near Mountain Home, and the Langley Gulch combined-cycle combustion turbine (CCCT) plant near New Plymouth. The Company presently maintains these plants by contracting with the plants' manufacturer, Siemens Energy, to service them on a case-by-case, as-needed basis.

Under this approach, the Company buys parts from Siemens before a scheduled maintenance outage, capitalizes the parts, and then uses them to replace old parts during the outage. The Company then retires the old parts and sends them to Siemens to be inspected and repaired. Once the old parts are repaired, Siemens returns them to the Company, and they are capitalized as an “initial spare parts” inventory and kept ready for future use. The Company states that this approach was the most cost-effective way to maintain its gas fleet until it added the Langley Gulch CCCT plant.

With this Application, the Company proposes to address its new maintenance needs by entering a long-term maintenance Contract with Siemens and selling its initial spare parts inventory to Siemens. The Company also proposes an accounting treatment for the transaction. The Company’s three proposals are summarized below.

#### ***A. Proposed Contract***

With the addition of Langley Gulch, the Company believes its employees now lack the skill to maintain the three gas plants at the same level of quality as could be provided by Siemens. The Company thus proposes to replace the current, case-by-case maintenance approach with a Contract in which Siemens agrees to provide scheduled maintenance on the three gas plants, including parts and repairs, shipping, service, labor, engineering services, and program management, for 20 years (20 years is the average length of the Contract; the actual LTP length will differ for each plant based on its remaining life). The Company believes the proposed Contract will lower overall costs to the Company and its customers by leveraging Siemens’ pool of inventory, outage resources, and technical expertise, and will save costs over the life of the agreement when compared to the Company continuing to contract with Siemens under the current case-by-case maintenance approach.

#### ***B. Proposed Sale of Spare Parts***

The Company also proposes to sell and transfer \$21.9 million of its “initial spare parts” inventory to Siemens. The Company notes that the Contract price has been reduced to reflect the net book value of the transferred parts inventory, and that Siemens would remove the inventory once the Contract is approved.

*Idaho Code* § 61-328 governs the Company’s proposal to sell and transfer its “initial spare parts” inventory to Siemens. The statute provides, in summary, that an electric utility may not dispose of its property unless authorized to do so by the Commission after a hearing in which

the Company establishes: (1) that the transaction is consistent with the public interest; (2) the cost of and rates for supplying service will not be increased by reason of such transaction; and (3) the purchaser has the bona fide intent and financial ability to operate and maintain said property in the public service. The Company explains that its proposed spare parts transfer meets these requirements by enabling the Company to return \$21.9 million in parts to Siemens that would otherwise have a limited market, and lowering overall costs for the Company and its customers. Further, the Company states that Siemens has a bona fide intent and financial ability to operate and maintain the parts in the public interest.

### ***C. Proposed Accounting Treatment***

Lastly, the Company proposes an accounting treatment for the transaction. Under the Company's proposal, the Company would create a regulatory asset consisting of the: (a) deferred initiation fees representing the Company's prepayment for Siemens' services; and (b) transferred parts' \$21.9 million net book value (subject to true-up at closing) and associated tax expense (about \$1.8 million). The Company would amortize this regulatory asset on a straight-line basis over the 20-year average length of the Contract. The Company also would earn a carrying charge, at the Company's last authorized rate of return, on the part of the regulatory asset balance consisting of: (a) the initiation fee; and (b) \$2.9 million of initial spare parts that are not yet included in the Company's authorized rate base and on which the Company is not yet earning a return.

## **COMMENTS AND TESTIMONY**

Commission Staff and ICIP filed the only comments in the case. The Company filed a reply, and also expressed its position through testimony at the public hearing conducted pursuant to *Idaho Code* § 61-328. In summary, all parties concur that the Commission should approve the Company's proposed Contract and sale of spare parts to Siemens. But the parties disagree on how the Company should account for the transaction. The parties' positions are summarized by issue below.

### ***A. Contract***

Staff and ICIP agree with the Company that the Commission should approve the Company's Contract with Siemens. They note, in summary, that Langley Gulch is the Company's only CCCT, and with the addition of Langley the Company's employees cannot maintain the three gas plants as well as Siemens. Further, the Company reasonably analyzed

multiple maintenance proposals from other contractors, and fairly and accurately compared the cost of self-maintaining the plants to the cost of contracting with Siemens to maintain them over the long-term, before deciding to enter the Contract with Siemens. The parties concur that the Company's Contract will lower costs for the Company and its customers over the Contract's life, when compared to the Company's current, self-maintenance approach.

***Commission Findings:*** Based upon our review of the record, we find that there is no dispute on this issue, and that all parties recommend that the Contract be approved. We find that the Contract will lower costs for the Company and its customers, and that the Contract is fair, just, and reasonable and should be approved in the public interest.

### ***B. Spare Parts Sale***

Staff and ICIP agree with the Company that the Company's proposal to sell and transfer \$21.9 million in "initial spare parts" to Siemens satisfies the three-part test in *Idaho Code* § 61-328. First, they note that the proposed transfer is in the public interest because it will result in an overall cost savings and operational benefit to ratepayers. Second, because of the expected cost savings, the transaction will not raise customer rates. Third, the parties believe that Siemens, which is the original equipment manufacturer for the three plants and a leading manufacturer in the industry, has the bona fide intent and financial ability to operate and maintain the parts for use in the public interest.

***Commission Findings:*** Based on our review of the record, including the testimony received at our public hearing, we approve the Company's sale and transfer of \$21.9 million in spare parts to Siemens. We note that all parties concur on this issue, and find that this transaction meets all of the requirements of *Idaho Code* § 61-328. The sale of parts to Siemens is in the public interest; it will not increase rates, and will enable Siemens to refurbish the parts and better maintain the Company's gas plants so the Company can provide safe and reliable service to its customers.

### ***C. Accounting Treatment***

Commission Staff and ICIP dispute the Company's proposed accounting treatment. In summary, the Company proposes to defer to a regulatory asset account: (1) all of its initiation fees under the Contract; and (2) the net book value and associated tax expense of the initial spare parts being transferred to Siemens. The deferral would coincide with the Contract's effective

date, and would be amortized for recovery over the next 20 years. The Company proposes that the regulatory asset earn a carrying charge at the Company's existing rate of return.

With respect to this proposed accounting treatment, Staff and ICIP agree that the Company should be allowed to create a regulatory asset. But Staff and/or ICIP disagree about the: (1) extent to which the Company should defer its initiation fees into the regulatory asset; (2) amortization period; and (3) carrying charge proposed for the regulatory asset. These three issues are discussed below.

1. Deferral of Initiation Fees. Staff disagrees with the Company's proposal to defer *all* of the initiation fees into a regulatory asset. Staff notes that the Company has historically booked gas plant maintenance by capitalizing about 89% and expensing about 11% as O&M expense. Staff believes that because the initiation fees essentially are prepayments towards Siemens' future maintenance services, the Company should continue to account for gas plant maintenance by capitalizing 89% of the initiation fees and deferring only that 89% into the regulatory asset account.

In its reply, the Company explains that it must pay the initiation fees upfront. If implemented, Staff's proposal that the Company expense 11% of the initiation fees would require shareholders to pay now for work that Siemens will perform in the future, and for cost-savings benefits that customers will receive in the future. The Company argues that this creates a mismatch of costs and benefits and precludes it from earning a return on the expensed portion of its investment. The Company thus urges the Commission to limit financial harm, and better align expenses with work performed, by authorizing the Company to capitalize and defer *all* of the initiation fees to a regulatory asset, not just 89% as recommended by Staff.

**Commission Findings:** The issue is whether we should allow the Company to defer all or just 89% of its contractual initiation fees to a regulatory asset. We find merit to both the Company's and Staff's arguments. The parties agree the initiation fees are prepayments towards future maintenance services and repairs. As such, the initiation fees act as an insurance policy that ultimately benefits the Company and customers. In this instance, we find it reasonable to authorize the Company to defer 100% of the initiation fees in the regulatory asset. Our findings on this issue, along with our findings on the amortization period and carrying charges issues discussed below, form the overall accounting and regulatory treatment that we find to be reasonable and authorize in this Order.

2. Amortization Period. Staff also disagrees with the Company's proposal to amortize the regulatory asset over the average, 20-year life of the Contract. With respect to the initiation fees, Staff recommended the Company defer and amortize the regulatory asset over the remaining life of each gas plant, because the Contract expires at different times for each plant based on each plant's remaining life (18-22 years, as estimated by the Company). With respect to the net book value of the "initial spare parts," and the associated tax expense, Staff recommended the Company defer and amortize the regulatory asset for the same period over which the Company currently depreciates the associated plant. Although the parts are "shorter-lived assets," Staff believes maintaining the current recovery period will minimize any shift in cost or faster recovery.

In its reply, the Company states that it believes its 20-year amortization proposal is appropriate, but that it nevertheless can accept Staff's proposal to match the amortization period to the remaining life of the associated plant.

***Commission Findings:*** We find that amortization over the remaining life of each asset aligns with the recovery that would have occurred absent the Siemens contract. Therefore, we find it fair, just, and reasonable to authorize the Company to amortize the regulatory asset over the remaining life of each asset. The Contract should not result in an amortization period that differs from the depreciation rate for the associated gas plants currently included in rates.

3. Carrying Charge. The Company requests a carrying charge on the regulatory asset balance consisting of the initiation fees and \$2.9 million of the initial spare parts plus the associated net tax expenses that are not currently included in the Company's authorized rate base and not earning a return. ICIP and Staff disagree with the Company that it should earn a return or carrying charge on the regulatory asset.

ICIP supports putting the value of the spare parts into a regulatory asset. But ICIP argues it is inappropriate for the Company to earn a return of and on an expense that is essentially the Company's maintenance expense. ICIP maintains that the Company should only receive relief for the regulatory asset when the Company files its next rate case.

Staff similarly argues that the Company should not earn a return on the parts until the Company places them in service, transfers them out of the regulatory asset, and applies to include them in rate base in the next general rate case. In particular, Staff notes that the Company will no longer possess the initial spare parts once the Company transfers them to

Siemens, and that the \$2.9 million not included in rate base will not be “used and useful.” Staff thus asserts that the Company should accrue no more benefit from the initial spare parts than amortization without a carrying charge and future rate recovery.

While ICIP and Staff believe the Company should not accrue a carrying charge on the regulatory asset, they offer alternatives in case the Commission believes some return should accrue. ICIP, for instance, suggests that the Commission might allow a carrying charge that is less than a full rate of return. ICIP notes the Contract reduces the Company’s risk in maintaining the gas plants over the next 20 years; Siemens provides warranties and guaranties and the Company will no longer carry spare parts that may lose value or become obsolete. ICIP thus suggests a carrying charge at the Company’s cost of debt, about 5.2%, to enable ratepayers to share in the savings along with the Company.

Staff notes, on the other hand, that even if the Commission were to allow a carrying charge on the regulatory asset, Staff’s view (as described above) is that 89% of the initiation fees would be the most that should be capitalized on the effective date of the Contract, and the remaining 11% should be expensed. Staff thus suggests that, if a carrying charge is allowed, it should not take effect until 2016 when the first scheduled maintenance outage for the plants occurs and the initiation fees are used toward milestone payments (i.e., toward large payments due at or near actual outage events) and other maintenance that contributes to the delivery of services to customers.

In reply to ICIP’s and Staff’s arguments against a carrying charge, the Company reiterates that it should have an opportunity to earn a return on its entire regulatory asset, and that any other treatment of the initial spare parts’ net book value contradicts how they are treated today. The Company stresses that the initial spare parts are already in service and “used and useful.” And, consistent with other spare parts inventory, the initial spare parts receive rate base treatment while in inventory as spare parts, and not just when they are installed in generating units. The Company notes that when it transfers the initial spare parts to Siemens under the Contract, Siemens will ensure those parts are available and stand ready for the Company when the need arises. Accordingly, the initial spare parts should continue to receive the same regulatory treatment when they are transferred to Siemens. The Company predicts that a contrary decision by the Commission will create a financial disincentive for the Company to look for opportunities to manage its costs over the long-term.

The Company also disagrees with Staff's alternate proposal that the Commission not allow a carrying charge until 2016, when the first scheduled maintenance outage occurs and the Company's initiation fees apply to milestone payments and maintenance that help the Company serve its customers. The Company notes that Siemens also will perform unscheduled maintenance that does not depend on payments made by the Company. Accordingly, these maintenance activities should not be tied to the initial spare parts' current rate base treatment.

Lastly, the Company requests that, if the Commission decides against a carrying charge on the regulatory asset, the Commission should assess the prudence of these investments now, and find that, in the next general rate case, the Company will be allowed to include the entire regulatory asset in rate base and earn a return on that asset's unamortized balance.

***Commission Findings:*** We find merit to various positions presented by each of the parties associated with the carrying charge issue. We typically do not authorize a return on regulatory assets. But currently, the spare parts inventory included in the last general rate case earns a return. These are two opposing viewpoints. The initiation fee is not the Company's only payment to Siemens under Contract Article 3. We expect the Company will appropriately record, and capitalize or expense, the payments for maintenance and repairs not covered by the initiation fees. The potential timing of payments reinforces Staff's position that a return not be effective before 2016 when the first scheduled maintenance outage occurs. ICIP, too, correctly observes that the Contract reduces the Company's risk in maintaining the gas plants over the next 20 years; Siemens provides warranties and guarantees and the Company will no longer carry spare parts that may lose value or become obsolete.

We desire a fairly straightforward method that balances and recognizes the situation as described above. We thus find it fair, just and reasonable to direct the Company to establish at least two regulatory assets: (1) one to initially cover the initial spare parts currently in rate base with a subaccount with "Rate Based" in the title; and (2) the other to include the initiation fees, and the \$2.9 million in initial spare parts that currently are not in the Company's authorized rate base and do not earn a return and the associated net tax expense. Both regulatory assets will be amortized over the life of the plant as discussed above. The first regulatory asset will continue to be in rate base and earn a return like the current treatment. This treatment will be consistent with current recovery, and will not shift costs to customers prematurely. The second regulatory asset will not earn a return. Instead, the Company will move the unamortized amount to the first



regulatory asset in equal installments over ten years, with the first transfer made at the end of 2016. Once transferred to the first regulatory asset, the unamortized portion will be included in rate base in the next general rate case.

### **DISCUSSION AND ULTIMATE FINDINGS**

The Company is an electrical corporation and a public utility, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.* Based on our review of the Application, the comments and reply, and the testimony received at the public hearing, we find it fair, just, and reasonable to approve the Company's proposed Contract, and sale and transfer to Siemens of \$21.9 million in spare parts. We find that this transaction meets all of the requirements of *Idaho Code* § 61-328. We also find it fair, just, and reasonable to approve the accounting treatment for the transaction as more particularly described in our findings from Section C, above.

### **ORDER**

IT IS HEREBY ORDERED that the Company's Contract with Siemens is approved.

IT IS FURTHER ORDERED that the Company's sale and transfer to Siemens of \$21.9 million in spare parts, as described in the Application, is approved.

IT IS FURTHER ORDERED that the Company shall employ deferred accounting for the transaction, in separate regulatory asset subaccounts, on the conditions described in our findings as expressed in Section C, above.

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 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.

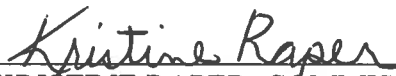
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 5<sup>th</sup>  
day of October 2015.



PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



KRISTINE RAPER, COMMISSIONER

ATTEST:



Jean D. Jewell  
Commission Secretary

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