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IDAHO PUBLIC
UTILITIES COMMISSION

LISA D. NORDSTROM
Lead Counsel
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November 25, 2015

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-15-26
Application for Approval of the Transfer and Sale of Certain Assets to the
United States Department of Justice Federal Bureau of Investigation
– Idaho Power Company's Application

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Application. An original and seven (7) copies of the **confidential** attachment to the Application are provided separately.

Also enclosed is a Protective Agreement Idaho Power Company requests the parties execute in this matter. If the Protective Agreement is satisfactory, please have the attorney assigned to this case execute the same.

If you have any questions about this filing, please do not hesitate to contact me.

Very truly yours,



Lisa D. Nordstrom

LDN:kkt
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AN) CASE NO. IPC-E-15-26
ORDER APPROVING THE TRANSFER AND)
SALE OF CERTAIN ASSETS TO THE) APPLICATION
UNITED STATES DEPARTMENT OF)
JUSTICE FEDERAL BUREAU OF)
INVESTIGATION.)

Idaho Power Company ("Idaho Power" or "Company"), in accordance with *Idaho Code* §§ 61-328, 61-524, and RP 052, hereby respectfully makes application to the Idaho Public Utilities Commission ("Commission") for an order on or before February 25, 2016, approving the sale and transfer of certain assets to the United States Department of Justice Federal Bureau of Investigation ("FBI").

In support of this Application, Idaho Power represents as follows:

I. INTRODUCTION

1. Idaho Power provides electric service to the FBI pursuant to Idaho Power's Schedule 19, Large Power Service ("Schedule 19") at the FBI facility located in Idaho Power's service territory. Pursuant to Idaho Power's Rule M, Facilities Charge Service ("Rule M"), Idaho Power owns and operates transformers and other facilities beyond the Point of Delivery ("POD") for the sole purpose of meeting the FBI's service requirements. Idaho Power provides this optional service to the FBI in exchange for the FBI's payment of a monthly facilities charge. The Company-owned facilities ("Assets") are more particularly described in the *Asset Purchase and Transfer of Title Agreement* ("Agreement") dated October 30, 2015, included as confidential Attachment 1.

II. ASSET SALE AGREEMENT

2. The FBI requested Idaho Power sell the Assets to the FBI in accordance with Rule M, Section 3. As described in the Agreement, Idaho Power agrees to transfer and convey the Assets to the FBI, and the FBI agrees to obtain title to and assume ownership, operation, maintenance, and all liabilities associated with the Assets. The FBI will own all facilities installed beyond the POD upon sale and transfer of the Assets.

III. IDAHO CODE § 61-328 AND RULE M

3. To fulfill the requirements described in *Idaho Code* § 61-328, the sale of the Assets must meet the following criteria:

- a. That the transaction is consistent with the public interest.
- b. That the cost of and rates for supplying service will not be increased by reason of such transaction; and

- c. That the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service.

This transaction satisfies the above requirements. First, considering the Assets only serve the FBI, the Asset sale is consistent with the public interest because it will not affect the delivery and reliability of electric service to other customers. In addition, the sale price methodology ensures the cost of supplying service will not increase and rates will not be impacted. Finally, as stated in the Agreement, the FBI acknowledges its bona fide intent and financial ability to operate and maintain the Assets backed by the United States government.

4. According to Section 3 of Rule M, the tariff that governs the sale of Company-owned facilities beyond the POD, all sales of facilities must be approved by the Commission and must meet the following provisions:

- a. *Idaho Code § 61-328.*
- b. No mixed ownership of facilities. A Customer purchasing Company-owned facilities installed beyond the POD must purchase all facilities listed on the Distribution Facilities Investment Report for that location.
- c. The Customer must provide the operation and maintenance of all facilities installed beyond the POD after the sale is complete.
- d. The Customer must prepay engineering costs for sales determinations taking greater than 16 estimated hours of preparation. Sales determinations equal to or less than 16 estimated hours of preparation will be

billed to the Customer as part of the sales agreement, or after the engineering is completed in instances where the sale is not finalized.

No mixed ownership of facilities will occur as a result of this transaction; if the Agreement is accepted by the Commission, the FBI will own, operate, and maintain all electrical facilities beyond the POD.

IV. CURRENT FACILITY CHARGE ARRANGEMENT

5. Idaho Power currently owns, operates and maintains distribution facilities located beyond the POD at the FBI site in exchange for the FBI paying a monthly facilities charge to the Company equal to 1.41 percent of the installed cost of assets 31 years old or less, and 0.59 percent of the installed cost of assets more than 31 years old. Those rates are reflected in Idaho Power's Schedule 66, Miscellaneous Charges, and are comprised of the following components:

Components	Facilities Charge Rate	
	≤ 31 yrs	>31 yrs
Rate of Return	4.71%	0.00%
Book Depreciation	3.23%	0.00%
Income Taxes	1.92%	0.00%
Property Taxes	0.56%	0.56%
Other Taxes (Regulatory Fees)	0.14%	0.14%
Operation & Maintenance	3.58%	3.58%
Administration & General	2.28%	2.28%
Working Capital	0.14%	0.14%
Insurance	0.32%	0.32%
Annual Total	16.89%	7.02%
Monthly	1.41%	0.59%

6. The cost components listed above are the same cost components included in the Company's base rate revenue requirement for like facilities. Descriptions of each cost component are as follows:

Rate of Return: Idaho Power's cost of financing its original investment in facilities. The rate of return uses a weighted average of the Company's cost of debt and cost of equity. The facilities charge rate represents a levelized payment stream to simplify the rate calculation and the administration of the facilities charge.

Book Depreciation: The straight-line annual depreciation of assets based on a levelized 31-year basis.

Income Taxes: The tax that Idaho Power pays on the amount of revenue received from the equity portion of the rate of return.

Property Taxes: The property tax Idaho Power pays associated with the Company's distribution facilities.

Other Taxes (Regulatory Fees): The fees that Idaho Power pays to the Idaho Public Utilities Commission and the Public Utility Commission of Oregon. A portion of these fees is tied to the Company's distribution investment which includes facilities installed beyond the Company's POD.

Operation and Maintenance: Idaho Power's costs to operate and maintain its distribution facilities. This component represents an average operation and maintenance rate for all distribution equipment.

Administration and General: An amount based on total administration and general expenses as a percentage of total plant investment.

Working Capital: The carrying cost of inventory. The working capital is based on the cost of capital to finance the distribution facilities inventory and the property taxes that the Company pays on its inventory.

Insurance: Insurance premiums resulting from facilities installed beyond the Company's POD. Insurance covers property, casualty, and worker's compensation.

7. In the Company's non-levelized determination of class-specific base rate revenue requirements, the Company determines the total revenue required for recovery on all distribution facilities-related investments (including those investments beyond the POD), as well as the associated operating, maintenance, and administrative expenses. This determination is made for each class of customers and the Company's revenues for providing facilities charge services are directly assigned as a revenue credit, or reduction, to the revenue requirement of the associated class of customers. As a result, any differences between the non-levelized revenue requirement and the levelized revenue requirement associated with the rate of return exist as intra-class subsidies between customers paying facilities charges and customers not paying facilities charges within each customer class. The methodology to determine the sale price described below is designed to avoid these intra-class subsidies.

V. SALE PRICE METHODOLOGY

8. Idaho Power has developed a methodology for determining its sale price for customers electing to pursue a purchase of Company-owned facilities beyond the POD under Rule M, Section 3. The methodology ensures that the Company and its other customers are not negatively impacted by the transaction.

9. Idaho Power explained the sale price determination methodology and resulting amounts to the FBI prior to execution of the Agreement and the FBI does not contest the sale price. Idaho Power's methodology consists of the following five components that collectively establish the sale price of the Assets:

a. Net Book Value: Remaining book value based on a 31-year asset life. The net book value of the Assets is \$20,681.

b. True-up of Past Levelized Rate of Return: When a customer seeks to exit a facilities charge arrangement prior to the end of the 31-year period when the Assets would be fully depreciated, the Company must “true-up” the difference between the non-levelized revenue requirement included in base rates and the levelized revenue received to date under the facilities charge arrangement to address the intra-class subsidy. Customers will receive the benefit as a reduction in future rate base because Idaho Power will record this amount as a credit in account 108. The true-up of past levelized rate of return associated with the Assets is \$11,955.

c. Near-term Rate of Return Impact Resulting from the Sale of Assets: When a facilities charge customer requests and Idaho Power agrees to provide facilities beyond the POD in exchange for the customer paying a monthly facilities charge, Idaho Power makes an investment decision to invest its capital in assets serving only that one customer, where it could have chosen instead to invest its capital in utility infrastructure seeking to include that investment in rate base to earn a return at its authorized rate of return over the life of the assets. When a customer buys an asset that is subject to the facilities charge, the return the Company would have earned through the facilities charge is forgone and the Company has limited opportunity to re-invest those funds in other assets and will not earn its authorized rate of return until such reinvestment is recognized in a future general rate case. This component of the sale price partially mitigates the financial impact to the Company and represents the net present value of three years of the forgone revenue associated with the levelized rate of return element

of the facilities charge. The Company believes three years is a conservative proxy to use as the amount of time that may pass between general rate case filings. The near-term rate of return impact resulting from the sale of the Assets is \$7,428.

d. Near-term Operational Impact Resulting from the Sale of Assets:

During a general rate case, the revenue requirement for the Schedule 19 customer class includes a revenue credit, or reduction, equal to the amount of facilities charge revenue expected to be collected from Schedule 19 customers. Because the Company will not have an opportunity to recalculate the revenue requirement and reset rates until the next general rate case, it calculates a near-term operational revenue impact resulting from the sale. This component partially mitigates the financial impact to the Company and represents the net present value of three years of the forgone revenue associated with costs related to the regulatory fees, operations and maintenance, administrative and general, and working capital that are incurred in order to service and maintain the Company's distribution facilities. The near-term operational impact resulting from the sale of the Assets is \$14,776.

e. Net Tax Gross-up: For income tax purposes, assets are depreciated at an accelerated rate compared to the straight line methodology used for financial book purposes. The accelerated tax depreciation results in the taxable value of the Assets being lower than the net book value of the Assets which results in a gain on the sale of the Assets that is subject to income taxes. The net income taxes associated with the gain, after removing the deferred tax adjustment, are grossed up to cover all income taxes that Idaho Power would pay on this transaction. The net tax gross-up resulting from the sale of the Assets is \$24,053.

10. The total sale price of the Assets is \$78,893. Idaho Power will also collect \$480 in estimated work order closing costs for a total amount of \$79,373. As set forth in Section 6 of the Agreement, the sale price is subject to change if Idaho Power replaces any of the Assets before closing the transaction. The sale price may also be reduced depending on the actual closing date to recognize that an additional year of depreciation has decreased the book value of the Assets.

VI. ACCOUNTING TREATMENT

11. Idaho Power will record this transaction using the accounting treatment below. The accounting follows existing generally accepted accounting principles in the United States of America and consists of the following three elements:

a. Removing the Original Cost of the Assets from Idaho Power's Accounting Records. Idaho Power will remove the assets from its accounting records as follows:

- Debit 108 – Accumulated Depreciation \$82,641
- Credit 101 – Electric Plant in Service \$82,641

b. Recording the Gain on the Sale. Idaho Power will record the gain on the sale of the Assets as follows:

- Debit 131 – Cash \$79,373
- Credit 421 – Miscellaneous Non-Operating Income \$46,737
(Near-term rate of return impact of \$7,428, near-term operational impact of \$14,776, net gross-up for tax of \$24,053, plus work order closing costs of \$480)
- Credit 108 – Accumulated Depreciation \$32,636
(Remaining net book value of \$20,681 plus true-up of past levelized rate of return of \$11,955)

c. Recording the Impact on Idaho Power's Income Taxes. Idaho Power will record the impact on Idaho Power's income taxes as follows:

- Debit 409 – Income Taxes \$14,649
- Credit 236 – Taxes Accrued \$14,649
- Debit 282 – Accumulated Deferred Income Taxes \$2,861
- Credit 410 – Provision for Deferred Income Taxes \$2,861

12. The values used for Idaho Power’s income tax journal entries are subject to change depending on federal statutes in effect at the time of the sale, and the actual impact to income taxes.

VII. MODIFIED PROCEDURE

13. Idaho Power does not believe a hearing is necessary for the Commission’s consideration of this Application and respectfully requests processing under Modified Procedure (i.e., by written submissions rather than hearing). RP 201 *et seq.* If, however, the Commission determines a technical hearing is required, Idaho Power will present testimony in support of the Application.

14. Idaho Power respectfully requests the Commission issue an order no later than February 25, 2016, to accommodate closing the Asset sale prior to the FBI’s April 15, 2016, expected in-service date. The closing deadline for the Asset sale coincides with Idaho Power’s projected deadline for installing other Idaho Power-owned facilities necessary to provide the FBI additional electric power at the FBI’s facility. If the Commission approves the Agreement on or before February 25, 2016, Idaho Power will have sufficient time to install system protection equipment preceding the POD prior to closing as detailed in Section 4 of the Agreement.

VIII. COMMUNICATIONS

15. Communications and service of pleadings with reference to this

Application should be sent to the following:

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IX. REQUEST FOR RELIEF

16. As described in greater detail above, Idaho Power requests the Commission issue its order on or before February 25, 2016, approving the sale and transfer of the Assets to the FBI.

DATED at Boise, Idaho, this 25th day of November 2015.



LISA D. NORDSTROM
Attorney for Idaho Power Company

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-15-26

IDAHO POWER COMPANY

ATTACHMENT 1

**THE ATTACHMENT IS
CONFIDENTIAL
AND WILL BE PROVIDED
TO THOSE PARTIES
THAT SIGN THE
PROTECTIVE
AGREEMENT**