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July 1, 2016

VIA HAND DELIVERY

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

Re: Case No. IPC-E-16-06
Compliance-Filing Request Regarding Accounting Treatment of Exchange of
Certain Transmission Assets with PacifiCorp – Idaho Power Company's
Reply Comments

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies
of Idaho Power Company's Reply Comments.

Very truly yours,

Julia A. Hilton

JAH:csb
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER'S)	
COMPLIANCE-FILING REQUEST)	CASE NO. IPC-E-16-06
FOLLOWING THE COMMISSION'S PRIOR)	
APPROVAL FOR THE COMPANY TO)	IDAHO POWER COMPANY'S
EXCHANGE CERTAIN TRANSMISSION)	REPLY COMMENTS
ASSETS WITH PACIFICORP)	
_____)	

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to comments filed by the Idaho Public Utilities Commission ("Commission") Staff ("Staff") on June 9, 2016. In these Reply Comments, Idaho Power wishes to clarify or respond to Staff's recommendation regarding the appropriate changes in transmission revenues associated with the asset exchange to record in the regulatory deferral account. Idaho Power believes there are two options that would lead to a fair outcome in this proceeding: (1) accept Idaho Power's filing, which tracks both increases and decreases in transmission revenues resulting specifically from the transaction as compliant with Order No. 33313 or (2) eliminate the

requirement to track and record any changes in transmission revenues resulting from the transaction and instead address all changes to transmission revenues at the time Idaho Power files its next general rate case.

I. BACKGROUND

On December 19, 2014, Idaho Power filed an application in Case No. IPC-E-14-41 requesting Commission approval of the exchange of certain transmission assets between Idaho Power and PacifiCorp as required under *Idaho Code* § 61-328. Among other things, *Idaho Code* § 61-328 requires that the “cost and rates of existing electric service in the state of Idaho” are not increased due to the transaction. In its Application, the Company requested approval of the asset exchange pursuant to *Idaho Code* § 61-328 and did not request any regulatory accounting treatment associated with changes in transmission revenues that would result from the transaction.

In its Comments in Case No. IPC-E-14-41, Commission Staff stated that retail rates of existing service in Idaho would not be increased by the transaction as required by *Idaho Code*. Staff Comments at 9. Staff then went into detail about the future expected increase in the Open Access Transmission Tariff (“OATT”) transmission formula rate for Idaho Power, which would ultimately result in a greater revenue credit for retail customers in future general rate case proceedings. Rather than wait until Idaho Power files a general rate case, Staff advocated that Idaho Power retail customers should gain benefits of the increased OATT transmission formula rate as soon as benefits occur. Unfortunately, this approach does not take into account the initial reduction in revenue associated with the transaction—it would isolate and track

only specific benefits associated with the change in transmission revenues as a result of the asset exchange.

In its Reply Comments in Case No. IPC-E-14-41, Idaho Power addressed Staff's position. Idaho Power explained that Staff's proposal did not take into account both increases and decreases in transmission revenues that result from the asset exchange. Furthermore, Idaho Power explained that if the Federal Energy Regulatory Commission ("FERC") did not approve Idaho Power's then pending proposed OATT transmission formula rate change, the benefits of the asset exchange may be delayed, resulting in a near term under recovery of transmission costs by Idaho Power.

On June 5, 2015, the Commission issued Order No. 33313 in Case No. IPC-E-14-41 authorizing the exchange of transmission assets between Idaho Power and PacifiCorp, finding that "rates will not increase as a direct result of the transaction." Order No. 33313 at 12. In its order approving the asset exchange, the Commission stated:

We agree that the financial benefits of the exchange in this case should be flowed to customers. However, consistent with our prior Order No. 32821 [footnote omitted], we find that a base level of third-party transmission revenues must first be established through a general rate case before changing the PCA methodology. We also want to be consistent with Order No. 32540, in which we allowed recovery of transmission costs associated with the ratemaking treatment of three Legacy Agreements in a FERC transmission rate case.

. . . Thus, we find it appropriate and direct Idaho Power to establish a regulatory deferral account *for transmission revenues resulting specifically from the transaction and its resulting change in the OATT rates.*"

Id. at 13 (emphasis added).

On February 19, 2016, in compliance with Order No. 33313, Idaho Power filed final asset exchange documents as well as a request for verification that its regulatory accounting method for tracking the changes in transmission revenues resulting from the asset exchange with PacifiCorp meets the requirements of the Commission's Order. The Commission processed Idaho Power's request for verification as an application and opened this case to review the Company's accounting treatment.

II. CHANGES IN TRANSMISSION REVENUES RESULTING FROM THE ASSET EXCHANGE

Idaho Power's transmission formula rate for transmission service provided under its OATT is determined using data from the most recent calendar year ending December 31. The transmission formula rate is updated annually and in effect for the following October 1 through September 30 time period. In an attempt to minimize regulatory lag associated with transmission revenue changes resulting from the asset exchange, Idaho Power petitioned FERC for authorization to apply a one-time known and measurable adjustment to the inputs of its transmission formula rate. This adjustment would have resulted in an increase in the transmission formula rate charged to all Idaho Power transmission customers taking OATT service, effective October 30, 2015. FERC declined to authorize an adjustment stating that Idaho Power's formula rate did not allow for a one-time adjustment. Therefore, the full impact of the asset exchange will not be reflected in the transmission formula rate until October 2017.

In its Comments, Staff indicated that it believes the Company had the option to revise the current OATT transmission formula rate in order to reduce the Company's unrecovered revenues as a result of the transaction, but such an option would not have resulted in a change prior to October 2017. In order for Idaho Power to include forward-

looking adjustments in its OATT transmission formula rate, the Company would be required to make a filing with FERC under Section 205 of the Federal Power Act. This filing would open all components of Idaho Power's transmission formula rate for review or challenge. FERC is required to publish all Section 205 filings in the Federal Register and allow 21 days for intervention and protests. Following interventions and protests, FERC generally has 180 days to issue an order in the docket, but as Idaho Power has experienced, resolution in some cases can take much longer. In FERC Docket No. ER06-787, Idaho Power requested to move to an annually updated transmission formula rate for determining transmission revenue requirement amounts. It took nearly three years to resolve all issues in the case.

In Case No. IPC-E-14-41, Idaho Power proposed to offset retail customers' revenue requirements with revenue credit amounts that incorporate the benefits of the changes in the transmission revenues when the Company files its next general rate case. Similarly, Idaho Power's Application in this case, verification that its regulatory accounting is in compliance with Order No. 33313, was not a request for a change in customer rates; instead, Idaho Power believes that a general rate case is the appropriate time to adjust rates for the changes in transmission revenues because the net impact in transmission revenues can be incorporated into the revenue credit applied to retail customers' revenue requirement amounts.

Idaho Power's Application in this case detailed the four components of transmission revenues that would change as a result of the transaction: Transmission Facilities revenues, Long-term Point-to-Point ("PTP") Transmission Service revenues, Network Transmission Service revenues, and Short-term/Non-firm Transmission

Service Revenues. Idaho Power computed revenues in each of the categories with and without an asset exchange scenario to quantify changes to transmission revenues associated with the transaction. Although FERC's Order regarding Idaho Power's requested adjustment to its formula rate prevented an immediate change in the transmission formula rate charged to customers for PTP service, the Company experienced immediate changes in other transmission revenues in 2015 as a result of the asset exchange: a \$2.34 million decrease in Transmission Facilities revenues, a \$1.2 million increase in Long-term PTP Transmission Service revenues, and a \$45,000 increase in Network Transmission Service revenues, for a total net decrease of \$1.1 million in transmission revenues for the period November 1, 2015, through December 31, 2015. The primary driver of the net decrease in transmission facilities revenues is the termination of numerous agreements between Idaho Power and PacifiCorp through which the Jim Bridger power plant and associated transmission assets were owned and operated (the "Legacy Agreements"). Transmission Facilities revenues from the Legacy Agreements, a component of the revenue credit currently included in retail customers' rates, ceased upon closing of the asset exchange and are identified on Line 1 of confidential Attachment 3 to the Company's Application in this case, a component of the Transmission Facilities revenues.

Idaho Power was aware and notified the Commission of the potential that the Company would initially experience a decrease in transmission revenues and that the decrease would last for a longer period if FERC denied Idaho Power's request for a one-time known and measurable adjustment to the inputs of the OATT transmission formula rate. As detailed in Exhibit No. 1 to Lisa Grow's testimony filed with the

Application in Case No. IPC-E-14-41, the loss in the near term is more than offset by the gain over the long run. This was confirmed by Staff in its Comments in this case, which state, “[t]he Company did not originally request deferral of transmission revenue losses and Staff believes any such loss was factored in to the overall benefit of the asset exchange.” Staff Comments at 5. However, ultimately the Commission ordered Idaho Power to establish a regulatory deferral account to track changes in transmission revenues as a result of the asset exchange. Order No. 33313 at 13.

III. IDAHO POWER’S REPLY

A. Idaho Power’s Long-Term Approach to Business Decisions.

Idaho Power believes it is important to elaborate upon information it provided in Case No. IPC-E-14-41 because it demonstrates Idaho Power’s commitment to making business decisions that benefit its customers in the long term. Idaho Power is concerned with Staff’s assertion that it may not have recommended approval of the asset exchange had it been aware that the asset exchange might, as Staff phrases it, “in the short term . . . harm retail customers.” Staff Comments at 4. Idaho Power included Exhibit No. 1 to Lisa Grow’s testimony in Case No. IPC-E-14-41 in order to demonstrate that the transaction would result in an increase in the annual revenue requirement in 2015 because of lower transmission revenues. In confidential Attachment 6 provided with Idaho Power’s response to the Industrial Customers of Idaho Power’s Request for Production No. 15 in Case No. IPC-E-14-41, the Company explained the changes in transmission revenues, summarizing that “the financial summary of this transaction is a modest near-term reduction in revenues followed by increased overall revenues which net to the positive by the end of year three” and that

“these benefits from transmission customers will be reflected in lower retail rates and associated revenues once they are included in [Idaho Power’s] next general retail rate cases.” Such a long-term approach is ultimately beneficial to customers and the Commission found that costs would not increase as a result. Order No. 33313 at 12.

Staff’s comments regarding harm to retail customers indicate a misunderstanding of the Company’s intent. Staff also states that it does not believe the Commission “intended the Company to defer unrecovered transmission related revenue, nor does Staff believe these losses should be borne by retail customers.” Staff Comments at 5. Idaho Power did not propose an approach that would harm retail customers. Idaho Power’s Application in Case No. IPC-E-14-41 outlined an approach where the Company would incorporate changes in transmission revenues as a result of the asset exchange when Idaho Power files its next general rate case. Idaho Power agrees with Staff that losses associated with the transaction should not be borne by retail customers; it was not, nor was it ever, the intent of the Company for the transaction to result in an increase to customer rates. Idaho Power was aware that there would be an initial decrease in transmission revenues, and the loss in the near term would be more than offset by the gain over the long term. Should the Commission choose to accept Idaho Power’s methodology outlined below to track all transmission revenue components that change as a result of the transaction, the Company will commit to not requesting approval of the recovery of accumulated net reductions in transmission revenues resulting from the transaction until the deferral tracking changes in the transmission revenues turn positive, resulting in a net benefit to customers.

Idaho Power routinely makes business decisions based upon the customer impact over the long term. In this case and in Case No. IPC-E-15-17, as a result of Idaho Power's request for approval of a long-term maintenance program contract with Siemens Energy, Inc., the Company incurred higher costs in the near term in order to obtain substantial benefits for customers in the long term. In Case No. IPC-E-15-17, Idaho Power illustrated that, without approval, the Commission would create a financial disincentive for the Company to look for opportunities to manage its costs over the long term. Ultimately, the Commission found merit in Idaho Power's request, granting approval of the long-term program contract. Order No. 33391. The circumstances surrounding the asset exchange are similar; the Company has gone to great lengths to lower costs to customers by entering into a transaction that, although initially having a negative financial impact, will provide customer benefits over the long term.

B. Idaho Power's Interpretation of Order No. 33313.

Idaho Power and Staff have differing interpretations of the Commission's language in Order No. 33313. Staff believes that the issue "is whether the deferral account should include the negative cumulative differences in total transmission revenue that the Company is now experiencing as a result of the asset exchange." Staff Comments at 4. Staff believes that this was not the intent of the deferral account in Order No. 33313 and that the Commission did not accept Idaho Power's proposal in its Reply Comments in Case No. IPC-E-14-41 to allow for symmetrical tracking. However, in its Order, the Commission states they "agree that the financial benefits of the exchange in this case should be flowed to customers," acknowledging the benefits Idaho Power presented in the case that were calculated inclusive of both the increases

and decreases in transmission revenues resulting from the transaction. Order No. 33313 at 13.

In the above-referenced Reply Comments and as described above, the Company clearly conveyed that revenue deficiencies existed for Idaho Power in 2015 regardless of FERC's decision to allow for a one-time adjustment to the OATT transmission formula rate and that customer rates would initially increase if immediate changes were made to retail rates. In Order No. 33313, the Commission acknowledged that if FERC did not approve Idaho Power's one-time adjustment to the OATT transmission formula rate, the Company may under recover transmission system costs. Order No. 33313 at 10. Idaho Power believes that with that knowledge, the Commission ordered the establishment of a regulatory deferral account for transmission revenues resulting from the transaction stating, "[t]hus, we . . . direct Idaho Power to establish a regulatory deferral account for *transmission revenues resulting specifically from the transaction and its resulting change in the OATT rates.*" Order No. 33313 at 13 (emphasis added). The Commission did not reject Idaho Power's proposed symmetrical tracking of changes in transmission revenues. The Commission directed Idaho Power to track transmission revenues resulting specifically from the transaction and resulting changes in its OATT rate. Idaho Power believes that, based on the record in the case, the Commission understood that such changes include both increases and decreases.

C. Idaho Power's Application Tracks All Components of Transmission Revenues that Change as a Result of the Asset Exchange.

The Company's Application includes accounting treatment that it believes meets the Commission's directive to establish a regulatory deferral account for changes in

transmission revenues resulting from the transaction.¹ Idaho Power acknowledges Staff's review of the Company's computation of changes in transmission revenues resulting from the transaction and the proposed deferral amounts, but believes Staff's recommendation is unjust because it tracks only positive changes in transmission revenues resulting from the change in the OATT transmission formula rate. Staff's recommendation isolates one component of transmission revenues affected by the transaction without recognizing all components of transmission revenues that are affected by the transaction, which is contrary to traditional ratemaking practice.

As described extensively in the Company's testimony in Case No. IPC-E-14-41, revenues received under the Legacy Agreements predate the OATT, are not subject to the OATT, and therefore are not used in the computation of the OATT transmission formula rate. However, FERC required Idaho Power to include the contract demands associated with the Legacy Agreements in the OATT transmission formula rate load divisor rather than crediting the revenue against Idaho Power's transmission revenue requirement. Consequently, although Legacy Agreement revenues ceased on October 30, 2015, because of the backward-looking OATT transmission formula rate, Idaho Power will not recover its entire transmission revenue requirement amounts from transmission customers until October 2017, when the OATT transmission formula rate is updated and includes a full year of financial data after the asset exchange. The decrease in Transmission Facilities revenues without a corresponding increase in the

¹ Idaho Power is required to record the impact of regulatory decisions on its financial statements. FASB ASC 980. Under the Company's accounting for the asset exchange, the regulatory deferral balance is a liability to customers once total transmission revenue collected after the asset exchange exceeds what it would have been absent the asset exchange. Conversely, during the short term when transmission revenues under the asset exchange are lower, the Company defers the difference as an asset based on its expectation of probable future transmission revenues to offset the current undercollection.

OATT transmission formula rate is a reflection of the gap in recovery of transmission revenue requirements and is directly related to the asset exchange with PacifiCorp.

Staff incorrectly assumes that the OATT transmission formula rate is the only driver of transmission revenue changes. Staff's Comments state that it recognizes FERC denied the Company's proposal to increase the OATT transmission formula rate and that additional transmission revenues that would have been deferred for the benefit of retail customers are delayed. Staff Comments at 3. Yet, in testimony and exhibits filed with Idaho Power's Application, the Company illustrated clearly that even absent an immediate change in the OATT formula rate, the following transmission revenues increased upon closing of the transaction: (1) Long-term PTP revenues due to PacifiCorp's new OATT service and (2) Network Transmission Service revenues due to the monthly update of the network customers' load ratio share applied to revenue requirement amounts.² Although the outcome of Idaho Power's FERC petition regarding an immediate OATT rate adjustment did not result in an increase in Idaho Power's OATT formula rate, the asset exchange resulted in an immediate increase to some components of transmission revenues.

Because the Company's response to Order No. 33313 is a symmetrical tracking of changes in transmission revenues in the deferral account, the increase in the Long-term PTP revenues and Network Transmission Service revenues will help offset the initial decrease in total transmission revenues that are a result of the transaction. Staff's proposal to disconnect the transmission facilities revenue components that change as a result of the transaction is unreasonable because they are all fundamentally connected. Moreover, the asset exchange and the resulting termination of the Legacy Agreements

² See confidential Attachment 1 to Idaho Power's Application.

and the associated reduction in the Transmission Facilities revenues is the primary driver for the increase in the OATT formula rate beginning in October 2017. In time, the OATT transmission formula rate increase provides incremental revenues that will more than offset reductions in the Transmission Facilities revenues, decreasing future transmission revenue requirements for retail customers.

Idaho Power does not object to tracking changes in transmission revenues resulting from the transaction and understands the Commission's desire to ensure customers receive all benefits associated with the asset exchange. However, the approach Staff advocates will create a financial disincentive for the Company to reduce costs to customers over the long term by requiring an asymmetrical tracking of changes in transmission revenues. Over the years, the Commission has supported the Company's efforts to make business decisions that benefit customers in the long run by authorizing the Company follow general regulatory principles by tracking and deferring initial costs to offset with benefits when they occur. Staff's proposal is contrary to the Commission's long-standing treatment of costs and benefits. At a minimum, eliminating the requirement to track and record any changes in transmission revenues resulting from the transaction and instead address the changes at the time the Company files its next general rate case would allow Idaho Power to incorporate the net impact of changes in transmission revenues to retail customers' revenue requirement amounts.

D. Staff's Recommendation to Offset Deferral Amounts with the Amortization Expense Approved in Order No. 32540 is Inappropriate.

If the Commission approves a symmetrical tracking of the changes in transmission revenues resulting from the asset exchange, Staff asserts that the Company should be required "to recognize, as a credit to the deferral account, the

annual amortization amount approved in Case No. IPC-E-12-06, Order No. 32540.” Staff Comments at 5. Staff contends that, because the Commission authorized an amortization expense of \$688,156 annually for three years on deferral amounts that have been fully amortized but not yet removed from customer rates, the Company should offset deferral amounts associated with changes in transmission revenues resulting from the asset exchange.

In Case No. IPC-E-12-06, Idaho Power requested approval to increase rates to recover amortization expense associated with a deferral of amounts related to unrecovered transmission costs. From March 2008 through May 31, 2010, Idaho Power was revenue crediting Idaho retail customers’ revenue requirement amounts based on an expected FERC decision in Docket No. ER06-787. However, the outcome of that case further reduced the OATT transmission formula rate, and therefore corresponding revenue credit amounts, resulting in significant unrecovered transmission costs. The Commission approved the deferral, and subsequent amortization, of the revenue credit amounts Idaho Power was providing to retail customers but ultimately never received from transmission customers. Order Nos. 32177 and 32540.

Staff states that “while the current request by the Company is significantly different than the 2009 request to establish a deferral account for unrecovered transmission revenues, unrecovered transmission revenues previously approved by the Commission are still being collected by the Company” Staff Comments at 6. Staff is correct, amounts included in the 2009 deferral account were associated with a forecasted OATT transmission formula rate that was overstated; however, they are not components of the Company’s transmission revenues that are changing as a result of

the transaction with PacifiCorp. While both are attributed to overstated revenue credits applied to Idaho retail customers' revenue requirement amounts, Idaho Power believes it is inappropriate to include an unrelated revenue credit in the calculation of the proposed deferral.

As explained above, all transmission revenue components that change as a result of the asset exchange are a part of the total revenue credit applied to Idaho retail customers' revenue requirement amounts. Equivalent to the 2009 deferral, the decrease in the Transmission Facilities revenues the Company will experience as a result of the termination of the Legacy Agreements would decrease the revenue credit Idaho retail customers would receive. However, because the Company has not filed a general rate case updating revenue credit amounts and absent the ability to include amounts in the current deferral, the decrease in the Transmission Facilities revenues would result in unrecovered transmission costs, identical to unrecovered transmission costs approved for recovery in Case No. IPC-E-12-06. By approving the symmetrical tracking of changes in transmission revenues, consistent ratemaking principles would be applied.

It is also important to note that the amortization expense included in customer rates in Case No. IPC-E-12-06 is no different than other rate base, revenue, and expense amounts included in a test year used to develop Idaho Power's revenue requirement; assets are added and retired, revenues fluctuate, and expenses increase and decrease through the normal course of business. It is impractical to update test year amounts with an exact revenue requirement to capture changes in the Company's revenues and expenses. Idaho Power believes it is inappropriate to include a credit to

deferral amounts authorized under Order No. 33313 equal to amortization expenses approved for recovery in Case No. IPC-E-12-06 and that such treatment should be appropriately dealt with in the Company's next general rate case.

IV. CONCLUSION

Regardless of FERC's decision to deny Idaho Power's request to make a one-time known and measurable adjustment to the inputs to the Company's OATT transmission formula rate, the asset exchange with PacifiCorp will provide substantial net customer benefits over the long term. However, a deferral that tracks only one component of changes in transmission revenues that result from the transaction would overstate the benefits of the transaction, resulting in a financial detriment to the Company. Such a result would create a financial disincentive for Idaho Power to look for opportunities to manage its costs and revenues in ways that benefit customers over the long term. For this reason, Idaho Power respectfully requests that the Commission either: (1) accept Idaho Power's filing to track both increases and decreases in transmission revenues resulting specifically from the transaction as compliant with Order No. 33313 or (2) eliminate the requirement to track any changes in transmission revenues resulting from the transaction and instead address all changes to transmission revenues when Idaho Power files its next general rate case.

DATED at Boise, Idaho, this 1st day of July 2016.



JULIA A. HILTON
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 1st day of July 2016 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

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