

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) OF IDAHO POWER COMPANY TO) APPROVE ITS SALE OF ASSETS TO) MCCAIN FOODS USA, INC.)	CASE NO. IPC-E-16-31 ORDER NO. 33691
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On November 15, 2016, Idaho Power Company sent a letter to Commission Staff, advising that it reached an agreement to sell certain Company-owned assets to its customer, McCain Foods USA, Inc., pursuant to Rule M “Facilities Charge Service” in the Company’s Tariff No. 101.¹ Staff and the Company agreed it was appropriate to treat Idaho Power’s letter as an Application, and the Commission issued a Notice of Application and Notice of Modified Procedure with a 21-day comment period. Staff filed timely comments; the Company elected not to file a reply. The Commission now grants the Company’s Application as follows.

BACKGROUND

Idaho Power’s transaction with McCain Foods is a sale of assets or facilities that are beyond the “point of delivery.” The point of delivery (POD) is the point at which the customer’s power usage is measured, and “beyond the POD” refers to the customer side, rather than the utility side, of the POD. Order No. 33470 at 1. In this case, the assets at issue meet “McCain’s service requirements” alone, and are “not devoted to the public service.” Application at 2. Idaho Power and McCain agreed that McCain would purchase the assets “and thereby assume ownership, operation, maintenance, and all liabilities associated therewith,” in order to resolve “current mixed ownership issues.” *Id.* at 1. Idaho Power states the total sale price of the assets, which was “reached as the result of an arm’s length transaction,” is \$373,974. *Id.* at 3.

ISSUES

1. Rule M

Under Rule M, McCain may contract with the Company to purchase Company assets if the following provisions are satisfied:

¹ Tariffs are rules governing a particular utility, adopted by Commission Order under *Idaho Code* § 61-622. Idaho Power Company’s Rule M Facilities Charge Service can be found on the Commission’s web site, <http://www.puc.idaho.gov>, by clicking “Approved Tariffs & Price Lists” under Laws & Rules, then “Electric Tariffs,” then “Rules & Regulations & Rate Schedules” for Idaho Power Company.

1. No mixed ownership of facilities installed beyond the POD (Customer must purchase all facilities listed on the distribution facilities investment report for that location).
2. Customer must operate and maintain all facilities installed beyond the POD after the sale is complete.
3. Engineering costs for sales determinations taking more than 16 estimated preparation hours must be prepaid by Customer; those taking 16 estimated preparation hours or less will be billed to the Customer.

Rule M. Also, Rule M provides that the Commission will consider the factors set forth in *Idaho Code* § 61-328 for guidance, in assessing whether or not to approve a proposed transaction. *Id.*; *see also* Order No. 33514 at 8-9.

Staff Comments. On its review, Staff believes Rule M is satisfied. Staff determined the transaction will not result in mixed ownership of facilities, and McCain will assume ownership, operation, maintenance, and all liabilities associated with the assets purchased. As to sales determination costs, Idaho Power indicated it will “collect \$480 in estimated work order closing costs,” about which Staff indicated no concern. Using *Idaho Code* § 61-328 as a guide, Staff determined that the relevant factors were (a) whether the transaction is consistent with the public interest, and (b) that the cost of and rates for supplying service will be not be increased because of the transaction. Staff determined that these factors were also satisfied.

2. Sales Price Methodology

The Company stated that it used the same price methodology in this case as it did in Case No. IPC-E-15-26, a sale of assets to the Federal Bureau of Investigation. This methodology includes five components: (1) net book value; (2) true-up of past levelized rate of return; (3) near term rate of return impact from sale of assets; (4) near-term operational impact from sale of assets; and (5) net tax gross-up. Letter Application at 3-4. The methodology uses a flat monthly Facilities Charge (established in the Company’s last general rate case in Order Nos. 32526 and 32481) equal to 1.41% of the original costs of Company-owned equipment installed, and decreases to 0.59% at the end of the assets’ established 31-year depreciation life. *Id.*

Staff Comments. Staff examined the Company’s sales price methodology and believes it is appropriate; the methodology includes the Company’s calculation and inclusion of net book value in the sale price, and the true-up of the assets’ decreasing net book value and levelized payment schedule. Comments at 4. Staff agrees the transaction “could result in lost

return until an alternate investment is made and recognized in a future general rate case,” thus it is “reasonable to include a revenue loss component” by way of the “near-term rate of return impact” in the sale price. *Id.* at 5. Staff does not fully agree with inclusion of the near-term operational impact in the sale price; Staff explains that, after the sale, Idaho Power will not be responsible for any operation & maintenance or administrative & general expenses associated with the facilities, thus the Company should not receive a component of facilities charge revenue to cover these expenses. *Id.* However, “Staff recognizes that McCain Foods has agreed to the sale price” and the agreement is otherwise consistent with provisions of *Idaho Code* § 61-328. *Id.* at 5-6. Finally, Staff agrees that the net tax gross-up is appropriate because of the “mismatch between the straight-line depreciation methodology used to determine book value and the accelerated depreciation methods used for assessing income taxes.” *Id.* at 6.

3. Accounting Treatment

The Company proposed that it will remove the assets from its books, record the gain on the sale of the assets, and record the impact on its income taxes.

Staff Comments. Staff believes the proposed accounting treatment is reasonable. Ultimately, Staff recommended that the Commission approve the proposed transaction, but that it not endorse the Company’s pricing methodology as precedent going forward.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over this matter under Title 61 of the Idaho Code, specifically *Idaho Code* §§ 61-502 and 61-503 (Commission has power to investigate a public utility’s contract). The Commission has reviewed and considered Idaho Power’s Application, its Agreement with McCain Foods, and Staff comments.

We find that Rule M is satisfied. We find the sale will not result in mixed ownership of facilities, and that McCain Foods will provide operation and maintenance of all facilities beyond the POD after the sale is complete, and will pay requisite engineering costs. Using *Idaho Code* § 61-328 as guidance, we find that the sale is consistent with the public interest and the cost and rates of supplying service will not be increased.

In addition, we are satisfied the sales price methodology, using the Company’s determinations of net book value for each of the assets, is appropriate. Also, because of the levelized payment schedule, customers underpay for the first 10 years of an asset’s life but overpay the remaining period, thus the true-up component appropriately accounts for decreasing

net book value while allowing the Company to fully recover its revenue requirement over the assets' depreciable life. Further, we find it appropriate to include the revenue loss component by way of the near-term rate of return impact, as well as the net tax gross-up, to account for the mismatch between the straight-line depreciation method used to determine book value, and the accelerated depreciation method used for assessing income taxes.

We note that Staff expressed concern with the Company's inclusion of near-term operational impacts associated with operations & maintenance and administrative & general expenses. Without that component, the sales price for the assets would be lower. However, as Staff acknowledged, McCain Foods agreed to the sales price "based upon its arms-length bargaining with Idaho Power." Staff Comments at 6. The Commission received no comment asserting otherwise. Absent evidence to support a conclusion to the contrary, we find that the Agreement satisfies Rule M and is otherwise reasonable.

ORDER

IT IS HEREBY ORDERED that Idaho Power Company's Application to approve the sale of assets to McCain Foods is granted as set forth above.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. 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 13th
day of January 2017.



PAUL KJELIANDER, PRESIDENT




KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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