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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ORDER APPROVING THE TRANSFER AND SALE OF CERTAIN ASSETS TO JAYCO, INC.	)	**CASE NO. IPC-E-18-10**
	)	**COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Sean Costello, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 34113 on July 26, 2018, in Case No. IPC-E-18-10, submits the following comments.

BACKGROUND

On June 6, 2018, Idaho Power Company ("Idaho Power; Company") filed an Application requesting authority to sell and transfer certain assets to Jayco, Inc. ("Jayco") under its Asset Purchase and Transfer of Title Agreement, *Idaho Code* §§ 61-328 and524, and Rule of Procedure 52. Application at 1. Pursuant to *Idaho Code* § 61-328, Idaho Power requested that the Commission approve the sale and transfer of property and to process the Application by Modified Procedure. *Id.* at 4.

Idaho Power's Application states that it provides electric service at Jayco's manufacturing facility in Idaho Power's service territory. Idaho Power states that it owns and operates transformers and other facilities beyond the point of delivery ("POD") for the sole purpose of meeting Jayco's specific service requirements. Jayco pays Idaho Power a monthly facilities charge to provide this optional service. *Id.* at 2.

Jayco has requested to purchase the Assets described in Exhibit A to the Application from Idaho Power under the Asset Purchase and Transfer of Title Agreement, through Idaho Power's Rule M. *Id.* at 2; and Attachment 1. Upon approval of the transfer and the closing of the sale, Jayco would own all facilities installed beyond Idaho Power's current POD. *Id.* at 2.

The Company's Application uses a sales price and accounting treatment that is consistent with the methodology prescribed by Rule M. Under this methodology, the total purchase price of the assets is $44,582. *Id.* at 5-11; and Exhibit B. The Company "provided the methodology and resulting sales price to Jayco, and answered Jayco's inquiries prior to execution of the Agreement." Application at 5. The methodology has five components: (1) net book value of assets to be sold ($17,574); (2) true-up of past levelized rate of return ($7,252); (3) near-term rate of return impact resulting from the sale ($3,758); (a) near-term operational impact resulting from the sale of assets ($4,903); and (5) net tax gross-up ($5,091). *Id.* at 6-8. In addition, Idaho Power would collect $426 in estimated work order closing costs and $5,578 "for costs associated with a pole and three switches used to house and operate the primary metering package located at the facility" that were installed for the sole benefit of Jayco which Idaho Power would continue to own. *Id.* at 8.

STAFF REVIEW

Commission Staff reviewed the Application, and believes it meets the Rule M's requirements and that the methodology for calculating the sales price, and pole and switches compensation are appropriate and protect other customers of the Company under *Idaho Code* § 61-328. Staff acknowledges that the Company and Jayco have signed the Agreement, agreeing to the sales price and other terms. Staff thus recommends the Commission approve the sale.

Rule M

Idaho Power owns and operates certain transformers and other facilities beyond the POD for the sole purpose of meeting Jayco's service requirements. Rule M allows Jayco to purchase these facilities if the transaction satisfies the following provisions:

a. No mixed ownership of facilities. A Customer purchasing the Company-owned facilities installed beyond the POD must purchase all facilities listed on the Distribution Facilities Investment Report for that location.
b. The Customer and not the Company will provide the operation and maintenance of all facilities installed beyond the POD after the sale is complete.
c. 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.

Staff believes that no mixed ownership of facilities will occur because of this transaction. Idaho Power and Jayco agreed that Jayco would purchase the assets and assume ownership, operation, maintenance, and all associated liabilities. Therefore, Staff agrees with Idaho Power that this transaction satisfies the requirements of Rule M. Under Rule M, the factors in *Idaho Code* § 61-328(3) will guide the sale of Company-owned facilities installed beyond the POD to the customer served by those facilities. *See* Order No. 33514 at 8-9; and Case No. IPC-E-15-26. The statutory factors relevant to this case include: (a) that the transaction is consistent with the public interest; and (b) the cost of and rates for supplying service will not be increased by reason of such transaction. *See Idaho Code* § 61-328(3)(a) and (b). Based upon the following analysis, Staff believes the transaction between Idaho Power and Jayco meets these requirements.

Analysis of Sales Price Methodology

The Company states that its sales price methodology ensures that the transaction will not negatively affect the Company or its other customers. *See* Application at 5. The Company applied the methodology from Case Nos. IPC-E-15-26, IPC-E-16-31, and IPC-E-17-17 to calculate the sale price for Jayco. In its Application, the Company describes its five-component methodology for establishing the assets price. These components, and the updated amounts associated with each component, are listed below:

Purchase Price Component	Amount
Net book value	$17,574
True-up of past levelized rate of return	$7,252
Near-term rate of return impact resulting from the sale	$3,758
Near-term operational impact resulting from the sale of assets	$4,903
Net tax gross-up	$5,091
Subtotal	$38,578
Work order closing costs	$426
Total Purchase Price	$39,004

The Company's treatment of each component relies on an approach used to compute the Rule M monthly Facilities Charge rate that was established in the Company's last general rate case and approved in Commission Order Nos. 32426 and 32481. This approach allows the Company to recover its authorized rate of return, book depreciation, operation and maintenance expenses, administrative and general expenses, income taxes, property taxes, regulatory fees, working capital, and insurance through a flat monthly Facilities Charge equal to 1.4 percent of the original cost of installed Company-owned equipment. The approach establishes a fixed, 31-year depreciation life for all assets subject to the monthly Facilities Charge. After 31 years, the monthly Facilities Charge rate decreases to 0.59 percent because the Company is not authorized to recover either depreciation or a rate of return on fully depreciated capital assets.

Net Book Value

The assets in this transaction were installed in 2007. The Company has determined the net book value for each asset as original investment cost less accumulated depreciation using straight-line depreciation over 31 years. Staff agrees with the Company's method for computing net book value and believes its inclusion in the sales price to be appropriate.

True-Up of Past Levelized Rate of Return

Depreciation causes the net book value of assets, the authorized return on those assets, and associated income taxes to decrease continuously over 31 years. To avoid an annually decreasing Facilities Charge, the 1.4 percent Rule M flat rate charge is computed to include a "levelized," time-value equivalent for these revenue requirement components. This allows a single, uniform Facilities Charge over the depreciable life of the equipment. Under the resulting levelized payment schedule, Facilities Charge customers effectively underpay the Company for the first ten years of an asset's life, but then overpay for the remaining period, so the Company fully recovers its revenue requirement over the asset's depreciable life. As a result, a customer who purchases a facility from the Company before it is fully depreciated still owes the Company a "true up" for the difference between the Company's authorized rate of return and the levelized rate recovered in the monthly Facilities Charge. Staff believes that the true up and the Company's methodology for computing this component are appropriate.

Near-Term Rate of Return Impact Resulting from the Sale of Assets

Idaho Power states that, when a customer buys an asset subject to the Facilities Charge, the Company foregoes the return it would have earned through the Facilities Charge. The Company has limited opportunity to re-invest those funds in other assets and cannot earn its authorized rate of return until an alternate investment is recognized in a future rate case. To offset this loss, the Company has included the present value of three years of the levelized rate of return component of the Rule M Facilities Charge. Consistent with prior cases, three years was used as an estimate of the average interval between general rate cases. *See* Application at 6-7. Staff agrees that the asset sale could cause lost return until an alternate investment is made and recognized in a future general rate case. Staff believes it is reasonable to include a revenue loss component in the asset sales price.

Near-Term Operational Impact Resulting from Sale of Assets

Part of the monthly Facilities Charge is intended to recover costs associated with Operations & Maintenance ("O&M") and Administrative & General ("A&G") expenses. After the sale, the Company will no longer receive this revenue. Idaho Power's pricing methodology includes three years of monthly Facilities Charge components related to O&M and A&G to offset the foregone revenue associated with costs related to regulatory fees, O&M, A&G, and working capital incurred on behalf of the facilities being sold. The Company explains that during a general rate case, the revenue requirement for the Schedule 9 customer class includes a revenue credit, or reduction, equal to the Facilities Charge revenue to be collected from Schedule 9 customers. Because the Company will not have an opportunity to recalculate the revenue requirement and reset rates until the next general rate case, it believes there will be a near-term operational impact resulting from the sale. Staff believes that once the facilities are sold, Idaho Power will no longer be responsible for any O&M or A&G expenses or working capital associated with these facilities. Once the O&M and A&G expenses go away after the sale, Idaho Power should no longer need to receive a component of Facilities Charge revenue to cover these expenses. Because unrelated Schedule 9 customers should not be hurt, Staff might not have included this cost component in the sales price due to any near-term operational impact resulting from the sale. But Staff recognizes that Jayco has agreed to the sale price, and Staff believes the agreement does not violate *Idaho Code* § 61-328. Given the agreement is based upon its arms-length bargaining with Idaho Power, Staff believes the transaction is reasonable.

Net Tax Gross-Up

The timing differences between the straight-line depreciation methodology used to determine book value and the accelerated depreciation methods used for assessing income taxes generally results in some, or all, of the assets book value being treated as a gain for income tax purposes. Accordingly, it is necessary to "gross-up" this portion of the book value, and any other gain resulting from the sale. Staff agrees that the Company's net tax gross-up methodology is appropriate, but believes that the computation of the gross-up amount should be based only on the components in the assets sales price.

Analysis of Pole and Switches Compensation

The agreement provides that Jayco must compensate the Company for certain costs associated with a pole and three switches that house and operate the facility's POD. These assets are part of the transaction, but Jayco will not own them. Instead, the Company will continue to own, operate, and maintain them as the POD to Jayco. Before the sale, and under Rule M, the pole and switches were originally installed solely to benefit Jayco, with Jayco paying a monthly Facilities Charge based on a percentage of the Company's initial investment. Because Jayco will no longer pay a monthly Facilities Charge on this investment, the Company plans to recover its book value and the true up for the past levelized rate of return. This approach ensures customers are not harmed by the transaction. If this compensation was not part of this transaction, the Company's unrelated customers would pay for O&M and A&G expenses on these assets installed solely for Jayco's benefit. Because the Company will continue to own, operate, and maintain the pole and switches after the sale, the amounts related to them are separately presented from the assets to be sold to Jayco.

Pole and switches valuation component	Amounts
Book value	$3,707
True-up of past levelized rate of return	$1,385
Net tax gross-up	$486
Total	$5,578

Staff agrees that the Company's treatment of the pole and switches book value, true up of the levelized rate of return, and net tax gross-up (based on an adjusted sales price) are appropriate and protect customers.

Accounting Treatment

The Company's Application outlines the accounting treatment it will apply to the transaction if approved by the Commission. The Company's proposed accounting treatment will remove the assets from the Company's books, record the gain on the sale of the assets, and record the impact on the Company's income taxes.

On August 2, the Company notified Commission Staff that its accounting treatment for the pole and switches payment would differ from the treatment included in the Application as Journal Entry d. *See* Application at 10. On August 10, 2018, the Company provided a letter detailing errors it has made in its original Application related to its requested accounting treatment for a portion of the transaction. *See* Idaho Power Company Final Journal Entries. In the Final Journal Entries, the Company showed that the debit to cash and credit to miscellaneous non-operating income would not change, but instead of crediting $5,091 to FERC Account 108 for accumulated depreciation, $1,385 would be credited to FERC Account 108 and $3,707 would be credited to FERC Account 101 for Plant in Service as a Contribution in Aid of Construction. The $1,385 represents the true-up of past levelized rate of return and the $3,707 represents the net book value of the pole and switches. There would be an additional journal entry debiting FERC Account 108 for $1,790 and crediting $1,790 to FERC Account 101 as a Contribution in Aid of Construction. The $1,790 represents the total accumulated depreciation on the pole and switches since installation. The Company said it is using the Contribution in Aid of Construction journal entries because it better reflects how the Company would have originally recorded the assets if a facilities charge was not established. The CIAC journal entries also accurately reflect that the assets were added for the sole benefit of Jayco. *Id.* at 9.

Staff has reviewed the proposed accounting treatment, including the modified treatment of the pole and switches, and believes it is reasonable.

STAFF RECOMMENDATIONS

Staff recommends that the Commission approve Idaho Power Company's Application to sell assets to Jayco as proposed. Staff believes that the proposed sale meets the requirements of Idaho Power's Rule M, *Idaho Code* § 61-328 and 524, and Rule of Procedure 52. Staff also recommends the amended accounting treatment be approved.

Respectfully submitted this 14th day of August 2018.

for Sean Costello
Deputy Attorney General

Technical Staff: Mike Morrison
Bentley Erdwurm
Brad Iverson-Long

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14th DAY OF AUGUST 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-18-10, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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