

JUN 30 1992

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
APPROVAL OF ACCOUNTING ENTRIES )  
FOR THE PURCHASE OF THE ASSETS )  
OF PRAIRIE POWER COOPERATIVE, )  
INC. AND FOR APPROVAL OF A )  
TARIFF SETTING FORTH THE RATES )  
AND CONDITIONS FOR SERVICE )  
TO CUSTOMERS IN THE PRAIRIE )  
SERVICE AREA )**

**CASE NO. IPC-E-92-11**

**ORDER NO. 24398**

**SUMMARY**

On May 15, 1992 the Idaho Public Utilities Commission received an Application from the Idaho Power Company (Idaho Power; Company) for approval of the initial accounting entries to record the purchase by Idaho Power of the assets of Prairie Power Cooperative, Inc. (Prairie Power) and for approval of a tariff setting forth the rates and conditions for service to customers in what will be known as the Idaho Power Prairie Service area. By this Order we grant Idaho Power's Application.

**INTRODUCTION**

Prairie Power is an electric cooperative providing service to approximately 683 customers located in Camas and Elmore Counties, Idaho with its office located in Fairfield, Idaho. According to the Application, the Prairie Power system consists of 342 miles of distribution line and two distribution substations. Prairie Power has approximately 574 residential customers, 30 residential seasonal customers, 37 commercial customers and 40 irrigation customers.

Idaho Power presently holds a Certificate of Public Convenience and Necessity issued by the Commission authorizing it to provide electric service within Camas and Elmore Counties, Idaho. The Application states that the Idaho Power distribution system is adjacent to the Prairie Power distribution system and, in some places, the two systems are located on opposite sides of the same county roads. Idaho Power currently provides transmission service, wheeling power from the Bonneville Power Administration to Prairie Power.

On December 3, 1991, Idaho Power and Prairie Power entered into an Asset Purchase Agreement, amended May 15, 1992, (the Agreement) in which Idaho Power has agreed to purchase all of the assets of Prairie Power. The Agreement enables Prairie Power's customers to obtain electric service from Idaho Power. The Application states that the Prairie service area will be totally integrated into Idaho Power's operating system. There will be no separate operating identity for the Prairie service area.

Prairie Power is a party to three contracts related to each of the Washington Public Power Supply System Nuclear Projects (WPPSS) Nos. I, II, III. The Application states that these Agreements, complete with all of Prairie Power's rights, duties and obligations set forth within the Agreements, will be assigned to the City of Richland, Washington.

In addition, the Application states, the Bonneville Power Administration (BPA) will indemnify Prairie Power, its successors and assigns, from any liability related to the failure of the City of Richland, Washington to fulfill any of its obligations under the Assignment Agreement. BPA will also indemnify Prairie Power from any losses resulting from the litigation *Bonneville Power Administration v. Washington Public Power Supply System* which involves the allocation of costs among the supply system nuclear projects.

The Application states that Idaho Power will not assume any obligations related to the WPPSS project Nos. I, II, and III except for those identified in the Asset Purchase Agreement. According to the Application, the extent of the obligations are estimated to not exceed \$20,000 for Prairie Power's involvement in *Federal Rural Electric Insurance Corporation v. Prairie Power Cooperative, Inc.* and approximately \$20,000 to \$30,000 for Prairie Power's share of the unpaid costs and attorney fees in other WPPSS related litigation, for a total liability of \$40,000 to \$50,000.

In exchange for the assets of Prairie Power, Idaho Power will assume Prairie Power's long-term debt to the Rural Electrification Administration (REA) of approximately \$1.9 million. The Commission's approval of this debt assumption has been requested by Idaho Power in its Application in Case No. IPC-E-92-12, filed simultaneously with the present Application. Idaho Power has also agreed to refund to each Prairie Power member their membership fee which will amount to approximately \$2,705, in total.

As stated, in exchange for its acquisition of all of Prairie Power's assets, Idaho Power has agreed to assume all of Prairie Power's liabilities, with the exception of the Patronage Capital, any liabilities related to employee benefit plans and any liabilities covered by insurance.

In accordance with the uniform system of accounts prescribed for public utilities and licensees subject to the provisions of the Federal Power Act, Idaho Power proposes to charge the original cost of plant to the appropriate electric plant in service accounts. The depreciation and amortization applicable to the original cost shall be credited to the appropriate account for accumulated provision for depreciation. The Application states that original cost, as applied to electric plant, means the cost of such property to the person first devoting it to public service. In this case, therefore, original cost is the cost at which the electric plant was recorded on Prairie Power's books.

For this acquisition, the Application provides that Idaho Power will record the assets and liabilities at Prairie Power's original cost in the appropriate accounts as follows:

<u>ITEM ON PRAIRIE POWER BALANCE SHEET</u>	<u>IDAHO POWER ACCOUNTS</u>
Assets	Assets
Total Utility Plant in Service	101-Electric Plant in Service
Construction Work in Progress	107-Construction Work in Progress
Accumulated Depreciation for de- preciation and amortization	108-Accumulated Provision for Depreciation of Electric Utility Plant
	111-Accumulated Provision for Amortization of Electric Utility Plant
Materials and Supplies-- Electric and Other	154-Plant Materials and Operating Supplies
All Other Asset Items	Each of the Items will be analyzed and recorded in the appropri- ate Idaho Power Asset Account
Liabilities	Liabilities
Memberships	232-Account Payable (to be refunded to the Prairie Power members)

Long-term Debt--REA and Other  
All Other Liabilities

224-Other Long-Term Debt  
Each of the items will be analyzed  
and recorded in the appropri-  
ate Idaho Power Liability  
Account

Because the total assets purchased under the agreement will exceed the amount Idaho Power is paying to Prairie Power's members (representing the \$5 per member membership fee) and the liabilities Idaho Power is assuming as consideration for the assets, the net difference will result in a credit or negative electric plant acquisition adjustment. Idaho Power proposes that this credit acquisition adjustment will be reduced by certain externally incurred acquisition related costs (i.e., contracted environmental studies of Prairie Power property, outside legal, accounting and engineering services, termination payments made to Prairie Power employees, etc.). The Company proposes to amortize the net balance of the acquisition adjustment over 240 months (the estimated life of the electric plant being purchased) effective with the date the asset purchase is finalized. The accounting entries for the amortization are proposed to be:

Debit: Account 115--Accumulated provision for amortiza-  
tion of electric plant acquisition adjustments

Credit: Account 406--Amortization of electric plant acqui-  
sition adjustments

Idaho Power will record the operating expenses incurred in operating the Prairie Power facilities in the appropriate accounts on Idaho Power's books. These expenses will not be segregated from the operating expenses of Idaho Power's other facilities.

For ratemaking purposes, Idaho Power proposes to include the balances in electric plant in service, accumulated depreciation of electric plant, accumulated amortization of electric plant, electric plant acquisition adjustments, amortization of electric plant acquisition adjustments and plant materials and operating supplies in the Company's rate base. Idaho Power will include the other long-term debt in its cost of capital computation. The operating expenses and the credit to amortization of electric acquisition adjustments will be included as appropriate operating expenses for ratemaking purposes.

Attached to the Application is Idaho Power's proposed tariff covering the rendering of electric service to the Company's Prairie service area. The proposed rates for Prairie service area customers were established by reducing existing Prairie Power rates by 15%. In addition, the Application states, eligible customers will continue to receive the residential exchange credit on Idaho Power's bills resulting from the annuity exchange credit. The rates for the Prairie Service area are proposed to remain in effect for ten years from the date they are approved by the Commission. The Application states that the Company does not propose to increase these rates during the ten year period. The Application notes that the Prairie Service area rates will initially be set higher than the corresponding rates in the general Idaho tariff. This is due to the rural nature of the area that will be served and the improvements that Idaho Power will make to the Prairie Power distribution system.

Idaho Power estimates that it will make capital improvements to the Prairie Service area of approximately \$1 million while spending an additional \$1 million in operation and maintenance expenses over the first ten years of operation.

Two parties timely filed comments in response to the Company's Application; the Commission Staff and Mr. Zane Harrison, past Chairman of the Board of Prairie Power.

#### **COMMISSION STAFF**

Staff asserts that the issues in this case are best framed as follows: [1] whether the proposed accounting entries to record the acquisition of Prairie Power are appropriate; [2] whether the rates that Idaho Power proposes to charge the Prairie Service area customers are fair, just and reasonable, and; [3] whether the proposed tariff for the Prairie Service area customers complies with the Commission's Rules, Regulations and Policies governing customer relations.

Staff contends that the accounting entries Idaho Power proposes for the Prairie Power acquisition comply with the uniform system of accounts prescribed for public utilities and are, otherwise, appropriate. With the proposed negative acquisition adjustment, the realized investment per customer will be approximately equal to the average investment Idaho Power has experienced in its normal course of business over the last four years. The proposed amortization

of the acquisition adjustment over 20 years is also appropriate to spread the Prairie Power system's value over its useful life.

Staff agrees that the proposed rates for the Prairie Service area customers are fair, just and reasonable. The approximate 683 customers that will be added to the Idaho Power Company's system represent approximately 1.7 months of normal customer growth averaged over the last four years. The energy requirements that these additional customers are expected to impose on Idaho Power's system will represent approximately one half of one month of average energy growth on the system for the same period of time. Staff believes that in comparison with the normal growth that Idaho Power experiences on its system, the acquisition of Prairie Power is relatively small in magnitude.

The Asset Purchase Agreement provides for an immediate 15% reduction in the rates of Prairie customers. Prairie Power's average rate across all customer classes in 1990 was 8.1¢ per kilowatt hour. When reduced by 15%, Staff notes, the average Prairie Service area rate would be 6.88¢ per kilowatt hour. Idaho Power's permanent rates for all tariffed classes averages 4.075¢ per kilowatt hour. It would require an average annual growth in Idaho Power's rates of almost 6% for the two average rates to equalize in 10 years. Thus, Staff contends, the rates for the Prairie Service area customers should provide a sufficient cushion above the rates of Idaho Power base customers to cover the additional costs they impose on the system. Staff believes that it is highly unlikely that Idaho Power's rates will increase on the average of 6% per year over the next 10 years. Therefore, Staff contends that it is equally unlikely that the average rates paid by Prairie Service area customers will be less than or even equal to Idaho Power's average system-wide rates before the end of the 10 year period.

Staff notes that there are some proposed Prairie Service area rate schedules with rates for certain types of users that are below existing Idaho Power rates. Prairie Power Company's billing data does not allow Staff to determine precisely the number of Prairie customers who would pay less than existing Idaho Power customers from the beginning of the ten year period. It is Staff's opinion that these exceptions are few and that the overall benefits of the acquisition justify an allowance of the anomaly.

Staff asserts that there are valid reasons for setting the rates of Prairie area customers higher than the Company's system-wide average. First,

the Prairie system is in immediate need of an upgrade. Idaho Power intends to expend \$2 million over the next 10 years to bring Prairie's system up to Company standards. The higher Prairie Service area rates, therefore, will help pay the costs of the upgrade. Staff believes that the rate differential, together with the low financing costs associated with Prairie's REA debt to be assumed by Idaho Power, will adequately recover those costs. Thus, Staff concludes, the proposed rates are fair to both Idaho Power's base customers and its Prairie customers.

Staff notes that the rates of the Bonneville Power Administration (BPA) have risen in recent years and are likely to continue increasing. By accepting the proposed rates, Prairie customers will not be directly impacted by future increases in BPA's rates. Prairie customers will also avoid increased rates that would inevitably have been necessary to pay for the much needed improvements to the Prairie distribution system that will now be undertaken by Idaho Power.

Staff also notes that the Prairie Service area customers will continue to receive the benefit of the annuity credit purchased with the BPA exchange credit buy out funds which will bring their effective rates closer to those of the Idaho Power base customers.

In addition, Idaho Power proposes that the Prairie Service area rates be set under the "contract standard." Under this standard, Staff asserts, the Commission must find that the contract rates adversely affect the public interest before changing them. See, Agricultural Prod. v. Utah Power & Light Co., 98 Idaho 23, 557, P. 2d. 617 (1976). This means that the Prairie Service area rates, if approved by the Commission, will not generally be changed as part of normal rate case proceedings. Furthermore, the Company has indicated that the rates would not be proposed for change as a result of special surcharge cases such as the one just completed in Case No. IPC-E-92-10.

Staff agrees that the application of the contract standard to the Prairie Service area rates would be fair, just and reasonable. The rates proposed by Idaho Power seem reasonably calculated to recover the costs of upgrading the Prairie Power system. On the average, however, the Prairie rates are very unlikely to ever be less than Idaho Power's average rate system wide. Thus, Staff believes, the application of the contract standard will provide a benefit in

terms of rate stability to the Prairie Service area customers without being a detriment to existing ratepayers.

As an additional matter, Idaho Power claims that its limited assumption of Prairie Power's share of attorney's fees resulting from litigation related to the Washington Public Power Supply System (WPPSS) nuclear projects is not unreasonable. This potential liability relates to a relatively small portion, which Prairie Power and, consequently, Idaho Power, are responsible for, related to three separate lawsuits. Idaho Power estimates the total potential liability to range from \$40,000 to \$50,000. Staff is no more capable of speculating on the amount of this potential liability than the Company. Staff did not analyze the broader issue of Prairie Power's potential liability for the WPPSS projects and the enforceability of BPA's indemnification of Idaho Power for that liability.

Similarly, Staff takes no position concerning the enforceability of the Asset Purchase Agreement or any other potential liabilities being assumed by Idaho Power, aside from the assumption of the REA debt at issue in Case No. IPC-E-92-12. As with any business transaction, there exists a potential for unforeseen liability. Staff believes that any attempt to identify or quantify such liability would necessarily rely upon speculation. Staff takes no position in this regard.

In conclusion, Staff asserts the proposed rates for Prairie Power appear to be fair, just and reasonable. Prairie Power customers receive the benefit of a 15% reduction in current rates which will most likely be locked in for a ten year period. Its customers also receive the benefit of an improved distribution system which should lead to increased reliability. Prairie Power customers will also eliminate their WPPSS exposure and are no longer subject to BPA's upward rate pressure.

Idaho Power's shareholders receive the benefit of an expanded rate base and the Company's ratepayers, in the Fairfield area, will receive the benefit of a new district office with customer support and a line crew with little, if any, impact on existing rates.

In terms of customer relations, Staff recommends that Idaho Power be required to take the following actions as soon as possible after the acquisition of Prairie Power is consummated.

[1] Provide to all Prairie Power customers written summaries of:

- [a] The Commission's Customer Relations Rules;
- [b] Rates;
- [c] Significant changes in policies, e.g., line extension policies;
- [d] Existing demand side measure programs, e.g., weatherization.

[2] Provide to all irrigation customers written information concerning the provisions of Idaho Power Schedule 24;

[3] Provide to all master metered customers with sub-metered units or spaces, written information concerning the master metering policy and requirement to bill tenants or occupants at applicable Idaho Power rates;

[4] Provide to all Prairie Power customers written information concerning planned plant improvements designed to eliminate safety hazards and enhance service quality and reliability;

[5] Provide to all Prairie Power customers written information concerning who to contact and where bills can be paid, information obtained, concerns expressed and/or complaints filed.

Staff notes that Idaho Power's proposed tariff for the Prairie Service area customers is a blend of Prairie Power's rate design and Idaho Power's policies. There are several rate design elements and policies that do not conform to normal, existing Commission approved policies and practices for electric utilities.

For example, Idaho Power proposes that Prairie Service area customers be assessed with monthly customer charges rather than monthly minimums. Prairie seasonal customers will be required to pay for service even when they have been disconnected. There will be an annual connection charge of \$9.35 per connected horse power assessed to Prairie irrigation customers. There is no similar charge for Idaho Power's existing irrigation customers. In spite of the foregoing differences, Staff recommends that the proposed transitional tariff be approved with the goal of assimilating Prairie Power customers into Idaho Power's system over a ten year period. Staff does not believe that approval of this unique tariff signifies a departure from previous Staff positions concerning appropriate ratemaking policy nor should it be considered precedential.

Staff notes that Prairie customers will realize certain benefits from the proposed policies. For example, a new residential customer hooking up under Prairie Power's current policy would be entitled to a \$1,500 allowance toward the

cost of line extension. Under the new proposed policy, a new residential customer without electric space heating and/or water heating will receive a \$1,500 allowance plus the cost of terminal facilities. A residential all electric customer will receive a \$2,000 allowance plus terminal facilities.

Another significant change is that rather than being required to pay a full season's advance each year, Prairie irrigation customers will be charged a monthly or full seasons' advance only if their past payment record indicates a need for obtaining payment prior to receiving service.

### **ZANE HARRISON**

Mr. Harrison, through his attorney, Craig Hobdey, submitted a letter to the Commission expressing his concerns about Idaho Power's acquisition of Prairie Power.

Of particular concern to Mr. Harrison is the enforceability of the contract between Idaho Power and Prairie Power. Specifically, Mr. Harrison is concerned about whether Idaho Power will live up to its agreement to expend \$2,000,000 in upgrading the Prairie system over the next ten years. The letter states:

"Rather than the promise of a \$2,000,000.00 upgrade within the next ten years, Mr. Harrison feels that an immediate reduction of the rate to Idaho Power's current levels would be something that could be enforced. Complete performance by both the parties upon the closing of the sale would eliminate the need for future "policing" of the contract and questions of standing would be moot."

The letter concludes that the negotiation process between Idaho Power and Prairie Power was "somewhat rushed" and the issue of contract enforceability was not fully discussed.

Furthermore, Mr. Harrison cast doubt upon the willingness and ability of the current Prairie Board of Directors to enforce the contract in the event Idaho Power defaults.

### **FINDINGS**

We hereby approve Idaho Power's Application filed in this case. We find that the accounting entries proposed to reflect the acquisition of Prairie Power appear to comply with the Uniform System of Accounts and are, otherwise, appropriate.

We find that the proposed rates for Prairie service area customers are fair, just and reasonable. For the reasons discussed below, we also find that the Application of the "contract" standard to the Prairie service area rates is fair, just and reasonable.

The acquisition of Prairie Power appears, in general, to be beneficial for everyone involved. Prairie customers will receive an immediate 15% reduction in rates, stabilized over a ten-year period. By severing their tie with BPA, Prairie customers will not be directly impacted by any increase in BPA's rates. Finally, the Prairie Power distribution system will receive a much needed upgrade.

Idaho Power customers will realize the benefit of an expanded customer base acquired through favorable financial terms. The rates that Prairie customers will pay over the next ten years will exceed those of Idaho Power's existing customers and will help to recover Idaho Power's costs of upgrading the system. In short, Idaho Power's existing customers will not, in any manner, be adversely impacted by the acquisition of Prairie Power.

We agree with Staff that it would be inappropriate for the Commission to speculate about the likelihood that BPA's indemnification of Idaho Power may somehow fail or that the attorney fees that Idaho Power has agreed to assume related to WPPSS litigation will exceed the estimated amount. We make no judgment in this regard. Any costs that Idaho Power ultimately incurs related to the WPPSS nuclear projects will not be analyzed until the Company comes before the Commission seeking to include them in rates.

Finally, we are satisfied that the proposed Prairie service area tariff, as it relates to customer rules and policies, although differing in terms from Idaho Power's existing tariff, is acceptable. It appears that Prairie customers will receive fair, just and reasonable treatment over the next ten years before being assimilated into Idaho Power's base tariff. The Company is directed to comply with the requested actions identified by Staff and set forth earlier in this Order.

An additional matter relates to the numbering assigned to the Prairie Service area customer schedules by Idaho Power in its proposed tariff. We note that, in some cases, the customer schedule numbers assigned to Prairie customers are identical to those of existing customers. As noted above, however, rates and general tariff provisions for these identically numbered schedules are different. This situation may lead to confusion, particularly when customers

inquire of the Commission regarding their billing or service. We believe it is appropriate, therefore, for the Company to revise its tariff to utilize a customer schedule numbering system for Prairie Service area customers which is not identical to existing schedule numbers. The Company is directed to file a revised tariff no later than July 10, 1992.

Regarding the concerns expressed by Mr. Zane Harrison, we note that *Idaho Code* § 61-302 provides as follows:

**61-302. Maintenance of Adequate service**—Every public utility shall furnish, provide and maintain such service, instrumentalities, equipment and facilities as shall promote the safety, health, comfort of its patrons, employees and the public, and as shall be in all respects adequate, efficient, just and reasonable.

Pursuant to the foregoing statute, Idaho Power is obligated to provide reasonable service to the Prairie customers. Prairie customers are entitled to file a complaint with the Commission in the event that they feel that Idaho Power has not satisfied its obligation to provide reasonable service.

### **ORDER**

IT IS HEREBY ORDERED that the Application of Idaho Power for approval of accounting entries and approval of tariff related to its Prairie service area is hereby approved subject to the terms and conditions of this Order.

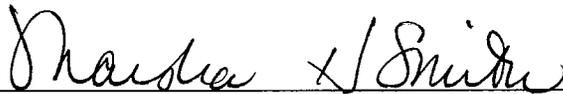
The Company shall file a revised tariff utilizing a different numbering system for its Prairie service area customer rate schedules no later than July 10, 1992. If the revised tariff complies with the terms and conditions of this Order it shall become effective on July 21, 1992.

The Company is also directed to take the "customer relations" actions recommended by Staff and specified earlier in this Order.

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 No. IPC-E-92-11 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 No. IPC-E-92-11. 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 30<sup>th</sup> day of June 1992.

  
MARSHA H. SMITH, PRESIDENT

  
DEAN J. MILLER, COMMISSIONER

  
RALPH NELSON, COMMISSIONER

ATTEST:

  
MYRNA J. WALTERS, SECRETARY

BP:vld/O-1795