(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF IDAHO POWER COM­PANY FOR AN ACCOUNTING ORDER TO DEFER AND AMORTIZE EXTRAORDINARY COSTS OF CORPORATE REORGANIZATION AND APPROVAL TO MODIFY AMORTIZA­TION METHODS FOR ACCUMULATED DEFERRED INVESTMENT TAX CREDITS.  | )))))))) | CASE NO. IPC-E-95-11ORDER NO.  26640 |

BACKGROUND

Order No. 26216, issued in this case on October 20, 1995, adopted a Settlement Agreement executed by the parties.  Pursuant to that Settlement Agreement, Idaho Power Company (Idaho Power, Company) is permitted to accelerate the amortization of Accumulated Deferred Investment Tax Credits (ADITC) if the Company’s current earnings fall below 11.5% on year-end common equity.  In addition, Idaho Power is required to refund 50% of all earnings above an 11.75% return on year-end common equity.  In order to monitor Idaho Power’s earnings, the Company is required to make annual earnings compliance filings.  On April 2, 1996, Idaho Power made its compliance filing for the year 1995.  The Commission subsequently issued a Notice of Modified Procedure soliciting comments in response to Idaho Power’s filing.  The only party to respond was the Commission Staff which filed comments on June 4, 1996.  Staff raised a number of issues regarding the calculation of Idaho Power’s earnings in the June 4 comments.  As a result, the Company further analyzed the matter and, after consultation with Staff, filed a response to Staff’s comments on September 3, 1996.  In its original compliance filing, the Company calculated its earnings to be an 11.56% return on year-end common equity.  In its response comments, the Company modified this to 11.74%.

Following is a discussion of the issues raised by the Company’s filing and Staff’s subsequent response.

Jurisdictional Allocations

The jurisdictional allocation factors were reviewed by Staff to determine reasonableness.  The only allocation factor at issue was the allocator for the “below the line” items of interest charges, preferred dividends and earnings on common equity.  Idaho Power initially allocated these items based on an operating income allocator, causing the earned return in all jurisdictions to be equalized.  Idaho Power recalculated the return at the request of the Staff using the L330 allocator, Total Combined Rate Base, to allocate the capital structure items in proportion to rate base.  The result was a total system return of the 11.56% return on common equity with an 11.74% Idaho jurisdictional return on year-end common equity.  Idaho Power accepts this change in allocation methodology as being reasonable for the purposes of the annual compliance filing.

The Federal Energy Regulatory Commission (FERC) jurisdictional revenues and expenses have been allocated to the state jurisdictions as established in the Settlement Agreement and Order No. 26216.  Staff accepts the methodology utilized to assign the FERC wholesale operations to the states.

Staff verified that the compliance filing corrected the four allocation errors identified in Case No. IPC-E-94-5.  Staff also verified that no other changes in allocation methodology has occurred since rates were established in Case No. IPC-E-94-5.

Calculation of Earnings

Staff reviewed the earnings calculation for extraordinary items.  Review of the deferred reorganization costs as discussed above reflects that the appropriate type of costs were deferred and are being amortized per Order No. 26216.

Staff questioned the treatment of the emission allowances sold by Idaho Power.  After a review of the accounting treatment, Staff recommended a different regulatory treatment for the sales than that booked by Idaho Power.  Idaho Power booked the revenues received from the sale to Account 411.8, Gains from Disposition of Allowances.  In 1995, $70,310 was recorded in Account 411.8 and the amount booked in 1994 was $2,489,430.  The sale of these emission allowances increased net utility operating income in each year.  The increase in 1994 to the return on common equity was approximately 0.3%, while the increase in 1995 was approximately 0.01%.  For regulatory purposes, Staff recommends the gain from the sale of emission allowances be amortized over 10 years.  These emission allowances were derived from generation plant and scrubber investment that has been included in rate base.  Ratepayers should receive a benefit from the sale of these allowances since the plant costs are included in rates.  A ten-year amortization period is reasonable, resulting in an annual amortization of $255,974 and a net impact of approximately .02% to .03% return on year-end common equity.  The completion of this amortization in the year 2005 is consistent with the amortization of the Company’s reorganization costs.

Idaho Power does not believe that such treatment is reasonable in the face of what Idaho Power is booking for hazardous waste cleanup expense recovery for Pac-Hide.  In Order No. 25880, Case No.  IPC-E-94-5, the Commission disallowed certain Pac-Hide expenses on the grounds that the expenses had already been previously incurred and that to recognize those expenses would be retroactive ratemaking.  Upon conclusion of the Pac-Hide cleanup matter, Idaho Power pursued recovery of some of those expenses against other parties and has been successful in recovering a portion of those expenses previously incurred by Idaho Power.

Subsequent to the Staff comments, Idaho Power provided documentation to the Staff showing that Idaho Power has recovered Pac-Hide payments on an actual basis of $705,692, after expenses, in 1994; $1,658,781, after expenses, in 1995; and approximately $771,091, after expenses, as of July 1996.  The 1995 compliance filing by Idaho Power included the $1,658,781 recovery.  The actual 1996 amount recovered will be recognized in the earnings test calculation for 1996.

Idaho Power contends that since it has already included the 1995 Pac-Hide recovery of expenses in the compliance filing earnings test, that it is not fair or reasonable to include a portion of the 1994 clean air emissions allowances in the 1995 earnings test as well.

Staff provides the following summary; 1) Clean Air Emission Sales Revenues amount to $2,585,136 as of July 1996, 2) Pac-Hide recovery amounts to $3,135,564 as of July 1996; 3) the actual amount of Pac-Hide recovery recorded in 1995 is greater than the Staff proposed Clean Air Emission Sales amortization and 4) the total Pac-Hide recovery amount as of July 1996 is greater than Clean Air Emission Sales Revenue amount as of July 1996.  Based on these facts, Staff believes it is reasonable to accept the Pac-Hide recovery as an offset for the Clean Air Emission Sales Revenues for ratemaking purposes.

Quality of Service and Customer Relations

Based on Staff’s review of complaints filed with the Commission regarding Idaho Power, it appears that reorganization has not led to unacceptable delays in providing service.  The number of complaints regarding held orders decreased from seven in 1994 to four in 1995.  During the first five months of 1996, the Commission received three complaints.

Complaints regarding service quality problems increased from 29 in 1994 to 51 in 1995.  For January through May 1996, the number of complaints regarding service quality (11) is below that received for the same period last year (19).  Outages continue to be the chief cause of concern.  Staff has worked with Idaho Power to identify the causes of service quality problems and develop action plans to remedy those problems.  Idaho Power has made a number of changes to increase operating efficiency and effectiveness, including implementation of a centralized budgeting and planning process for new line construction, line reconstruction and maintenance.

Staff believes that Idaho Power has been responsive to customers with respect to office closures and personnel reassignments, altering restructuring plans when necessary to accommodate valid customer concerns.  Staff will continue to monitor Idaho Power’s performance in all of these areas.   Staff recommends that Idaho Power and Staff continue to work together to address service quality issues.

F I N D I N G S

It appears that the Company and Staff have worked admirably to resolve the issues raised by Idaho Power’s compliance filing.  The use of the L330 allocator more closely allocates the capital structure items in proportion to rate base and the methodology utilized to assign revenues and expenses from FERC wholesale operations to the Company’s state jurisdictions appears to be reasonable.  Moreover, the parties have reasonably offset the recovery of the Pac-Hide costs against the Clean Air Emission Sales revenues for ratemaking purposes.  As a result, we find that the calculations agreed to by the Company and Staff resulting in an 11.74% return on year-end common equity for 1995, resulting in no additional amortization of ADITC or sharing to ratepayers, is reasonable.  The Company’s compliance filing, as modified, is approved.

O R D E R

IT IS HEREBY ORDERED that the compliance filing of Idaho Power, as modified by the Company and Staff, is hereby accepted resulting in neither additional amortization of ADITC nor sharing to ratepayers.

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-95-11 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-95-11.  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                  day of October 1996.

                                                                                                                                       RALPH NELSON, PRESIDENT

                                                                                            MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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On October 19, 1996, IPUC Order No.  26640 was issued by this Commission.  The following change(s) should be made to that Order.

At the top of page 2 lines 1 and 3 and page 4 in the third paragraph line 2,

READS:

“ preferred dividends and earnings on common equity.  Idaho Power initially allocated these items”

“Idaho Power recalculated the return at the request of the Staff using the L330 allocator, Total”

“by Idaho Power’s compliance filing.  The use of the L330 allocator more closely allocates the capital”

SHOULD READ:

“preferred dividends and earnings oncommon equity.  Idaho Power initially allocated these items”

“Idaho Power recalculated the return at the request of the Staff using the ”Total Combined Rate Base” allocator, Total”

“by Idaho Power’s compliance filing.  The use of the ”Total Combined Rate Base”allocator more closely allocates the capital”

Dated at Boise, Idaho this        day of October, 1996.

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

October 10, 1996