DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

DON HOWELL

BRAD PURDY

STEPHANIE MILLER

DAVE SCHUNKE

GARY RICHARDSON

TONYA CLARK

BEV BARKER

WORKING FILE

FROM:TERRI CARLOCK

DATE:OCTOBER 3, 1996

RE:IDAHO POWER COMPANY’S 1995 EARNINGS COMPLIANCE FILING, CASE NO.  IPC-E-95-11

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.  This compliance filing was made to document Idaho Power’s earnings for the year 1995.  Staff filed comments on June 4, 1996.  Idaho Power completed further investigation of the issues and discussed the issues with Staff prior to filing its response to Staff comments on September 3, 1996.  As filed by Idaho Power, the 1995 earnings reflected a return on year-end common equity of 11.56%.  A change in allocators as discussed below, results in an 11.74% return on year-end common equity.

On May 14, 1996 the Commission issued a Notice of Compliance filing soliciting comments.  The only party to respond was the Commission Staff.  Following is a discussion of the issues raised by the Company’s filing and Staff’s subsequent response.

DEFERRAL AND AMORTIZATION OF CORPORATE REORGANIZATION COSTS

The corporate reorganization costs deferred during 1995 amounted to $3,183,424.  Direct severance pay of $2,304,667 accounted for the majority of the cost.  The remainder of the costs were associated with employee counseling, employee training, consultant costs, insurance and legal fees.  All costs were directly assigned or allocated to the bulk power and distribution business units.  The monthly amortization to the bulk power unit which will occur through December 2005 is $13,226 and the amortization to the distribution unit is $12,655.

Idaho Power is deferring the appropriate type of out-of-pocket expenses incurred in reorganization.  The actual expenditures compared to budgeted numbers were lower in the power supply business unit but higher in the distribution business unit for 1995.

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 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 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 in 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 Pac-Hide recovery 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.

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.

COMMISSION DECISION

Does the Commission accept the use of the total combined rate base allocator to allocate the “below the line” items of interest charges, preferred dividends and earnings on common equity?

Does the Commission accept the Pac-Hide recovery amounts as an offset for the Clean Air Emission Sales Revenues for ratemaking purposes?

Does the Commission wish to direct Idaho Power and Staff to continue working together to address service quality issues?

Does the Commission accept the 11.74% return on year-end common equity as the 1995 earnings level for the 1995 earnings test resulting in no additional amortization of ADITC or sharing to ratepayers?

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Terri Carlock

TC:udmemos/ipce9511.tc