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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION)

OF IDAHO POWER COMPANY FOR)CASE  NO.  IPC-E-95-11

AN ACCOUNTING ORDER TO DEFER)

AND AMORTIZE EXTRAORDINARY)

COSTS OF CORPORATE REORGANIZATION)COMMENTS OF THE

AND APPROVAL TO MODIFY AMORTIZA-)COMMISSION STAFF

TION METHODS FOR ACCUMULATED)

DEFERRED INVESTMENT TAX CREDITS.)

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PURSUANT to the Commission's Notice of Compliance Filing issued May 14, 1996, the Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Brad Purdy, Deputy Attorney General, hereby submits the following comments in response to Idaho Power Company's (Idaho Power, Company) application.

BACKGROUND

Order No. 26216, issued in this case on October 20, 1995, adopted a Settlement Agreement and provided for annual compliance filings.  Pursuant to that Settlement Agreement, Idaho Power is permitted to accelerate the amortization of Accumulated Deferred Investment Tax Credits (ADITC) if Idaho Power’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.  This compliance filing is made to document Idaho Power’s earnings for the year 1995.  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.  Amortization of the gain on sale of emission allowances increases the return on year-end common equity to approximately 11.76% to 11.77%.

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 requiring adjustment was for the allocation 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 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.  These results are shown on Attachment 1.

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 recommends 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.

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 the Company 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.

The Company 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 RECOMMENDATION

Staff recommends acceptance of the compliance filing as adjusted in Attachment 1 for the change in allocator for capital structure items.  An additional adjustment of .02% to .03% would be required to reflect the amortization of the gain from the sale of the emission allowances.  The 11.76% to 11.77% return on year-end common equity does not require additional amortization of ADITC, however, it does provide sharing to ratepayers.  Staff recommends Idaho Power and Staff determine the exact dollar amount to be shared and determine the methodology to reflect this refund in rates at the same time as the next Power Cost Adjustment (PCA) rate adjustment.  If sharing occurs for the year 1996, that amount should also be reflected in rates at the same time as the next PCA.  Staff also recommends that the Company and Staff continue to work together to address service quality issues.

DATED  at Boise, Idaho, this            day of June 1996.

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