DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

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DON HOWELL

BRAD PURDY

STEPHANIE MILLER

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DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:MAY 13, 1997

RE:CASE NO.  IPC-E-97-5

IDAHO POWER COMPANY

1996 EARNINGS COMPLIANCE FILING

On April 1, 1997, the Idaho Power Company (Idaho Power; Company) in Case No. IPC-E-97-5 made a com­pliance filing with the Idaho Public Utilities Commission (Commission).  The filing consists of documentation of the Company’s earnings for the year 1996.  The Company’s compliance filing is a result of Order No. 26216 issued by the Commission on October 20, 1995 in Case No. IPC-E-95-11.  Pursuant to the Settlement Agreement adopted by the Commission in that case, Idaho Power is permitted to accelerate the amortization of its Accumulated Deferred Investment Tax Credit if the Company’s current earnings fall below 11.5% on year end common equity.  In addi­tion, the Company is required to refund 50% of all earnings above an 11.75% return on year end common equity.

Idaho Power reports that for the year 1996 the Company earned a return on common equity of 12.55% in its Idaho jurisdiction.  As calculated by the Company, this is equivalent to a customer shared amount of $4,890,518.  In computing the amount of revenue available for determining the reduction in the Company’s rates however, Idaho Power submits that the appropriate revenue available for refund is $3,474,622.  This lower amount is calculated by deducting from the revenue attributable to refund ($4,890,518) the interest attributable to Demand Side Management (DSM) deferrals for the year 1996 ($1,415,896).

The Company contends that it is inappropriate to include interest earned on the 1996 Demand Side Management deferred balance in the revenues attributable for refund since this balance has not yet been reviewed or approved by the Commission.  The DSM deferrals are attributed to the following Commission Orders and DSM programs:

Order No. 24913Commercial Lighting Energy Efficiency Program

Order No. 23724Industrial Conservation Program

Order Nos. 24408, 23454Conservation Program for Manufactured Homes

Order No. 24858Irrigation Conservation Program

Order No. 22893Design Excellence Award Program

The Company maintains that the status quo can be retained for all parties—the Commission, Idaho Power, and the Company’s customers, by simply deducting the interest earnings attributable to the 1996 DSM interest capitalized from the earnings calculation and reducing the outstanding deferred asset balance by an equal amount.

A second alternative, Idaho Power suggests, is to include the interest earned on the DSM balances.  In so doing, however, the Company contends that the Commission would be approving the amount of interest charged prior to reviewing the balances included in the DSM deferral.

On April 18, 1997, Notices of Application and Modified Procedure were issued in Case No. IPC-E-97-5.  The deadline for filing written comments was May 9, 1997.  Timely comments were received from FMC Corporation (FMC), the Industrial Customers of Idaho Power (ICIP) and Commission Staff (Staff).  Also filed were the responsive comments of Idaho Power.  The comments of the parties (attached) can be summarized as follows:

FMC

FMC urges the Commission to authorize a refund of $4,890,518 without any deduction for DSM interest for 1996.  Pursuant to previously approved DSM accounting procedure, FMC notes that the Company is authorized to accumulate or defer the cost of approved DSM programs in Account 186 and to charge interest on the accumulated balance at a rate equal to the last Commission approved overall cost of capital for Idaho Power.  Idaho Power then recovers the accumulated Account 186 balances when they are amortized to operating expenses in the Company’s next general rate case or tracker proceeding.  FMC notes that the Company is presently precluded from filing a general rate case until after the expiration of the existing rate moratorium on January 1, 2000.

The Company’s present proposal to expense 1996 DSM interest on 94-96 DSM investment in 1997 rates, FMC contends, is a departure from previously approved DSM accounting procedure and is unwarranted and unfair to existing customers.

ICIP

ICIP urges the Commission to reject Idaho Power’s proposed treatment of conservation related interest.  ICIP notes that the Commission in its approval of DSM programs has always reserved the right to review the prudency of the program costs incurred prior to the inclusion of any amounts in the Company’s revenue requirement.  ICIP characterizes IPCO’s present proposal as an attempt to circumvent the prudency review process by requiring today’s ratepayers to pay the carrying costs on deferred DSM balances, without explicit approval of the underlying program costs.

ICIP contends also that the Company’s proposal is a violation of the state’s anti-CWIP statute, I.C. 61-502, which prohibits the Commission from granting ratemaking treatment for property that is not “used and useful.”  There being no review, it is impossible, ICIP contends, to conclude whether the costs associated with the DSM balances is or is not used and useful.

Staff

Staff recommends acceptance of Idaho Power’s 1996 earnings compliance filing, including the proposed DSM interest adjustment and the resultant $3,474,622 refund revenue figure.  Staff doesn’t believe it makes sense to give customers a refund today and then charge them a larger amount in the future to repay the interest.  Reduction of the current refund by the 1996 interest earnings, Staff contends, eliminates compounding of this interest resulting in a lower amount customers will pay in the future.(footnote: 1)

Idaho Power Response

Idaho Power contends that its proposed adjustment for DSM interest is not an accounting adjustment but is rather a ratemaking adjustment, which it states is clearly permitted under the existing Rate Settlement Agreement.  Idaho Power is proposing to omit the 1996 capitalized interest income from the 1996 revenue sharing amount.  This, the Company contends, retains the status quo and does not circumvent the approval process for DSM expenditures.  Idaho Power contends that all of its customers will benefit from the removal of the 96 DSM interest capitalization from the outstanding DSM deferred balance.  The commencement of this benefit, it states, will occur on January 1, 1998, when the Company begins the amortization of the 1994 DSM deferred balance.   (Reference Order No. 25880, Case No. IPC-E-97-5—wherein the Commission ordered that accumulated DSM program costs could only be deferred up to three years.)

Idaho Power disputes the contention of ICIP that the Company’s  proposal is a violation of the anti-CWIP statute.  CWIP, the Company states, refers to property that a utility is currently constructing and that will be later used to provide utility service.  DSM expenditures, the Company states, are not construction work in progress.  Clearly the ratemaking treatment of DSM expenditures, the Company contends, the allowance of a capitalized interest amount, etc., does not fall within the provisions of Idaho Code 61-502a.

Commission Decision

Should the Company’s proposed 1996 earnings filing be accepted?  What is the appropriate refund amount to be flowed through the Company’s PCA? $4,890,518 or the adjusted amount of $3,474,622; or some other amount?

Scott Woodbury

vld/M:IPC-E-97-5.sw2

**FOOTNOTES**

1:

Interest on Demand Side Management programs is similar to Allowance for funds used During Construction (AFUDC).  AFUDC, an overhead cost, is booked as interest earned on the funds used to finance construction during the construction period prior to the time the asset is placed in rate base.  AFUDC and the interest on the deferred balance of the DSM Deferral is imputed “interest” that isn’t actual cash but is reflected as a source of income on the Company’s balance sheet.  The offsetting entry on the Company’s books is a debit to a deferred asset account.  If earnings sharing is calculated without removing this interest income, customers will earn interest today that will then be paid back in the future at a compounded amount.