SCOTT WOODBURY

DEPUTY ATTORNEY GENERAL

IDAHO PUBLIC UTILITIES COMMISSION

PO BOX 83720

BOISE,  IDAHO  83720-0074

(208) 334-0320

Street Address for Express Mail:

472 W WASHINGTON

BOISE ID  83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE 1996 COMPLIANCE FILING OF IDAHO POWER COMPANY AS REQUIRED BY IPUC ORDER NO. 26216 ISSUED IN CASE NO. IPC-E-95-11. | )  )  )  )  )  )  ) | CASE NO. IPC-E-97-5  COMMENTS OF THE  COMMISSION STAFF |

COMES  NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline in Case No. IPC-E-97-5 issued on April 18, 1997, submits the following comments.

BACKGROUND

Order No. 26216, issued in Case No. IPC-E-95-11 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 1996.  As filed by Idaho Power, the 1996 earnings reflected a return on year-end common equity of 12.55% for the 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 amount is calculated by deducting from the refund ($4,890,518) the interest capitalized on Demand Side Management (DSM) deferrals and booked as income for the year 1996 ($1,415,896).

INTEREST ON DEMAND SIDE MANAGEMENT DEFERRALS

The Company contends that it is inappropriate to include in the refund, the interest capitalized on the 1996 Demand Side Management deferred balance because this balance has not yet been reviewed or approved by the Commission.  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 attributable to the 1996 DSM interest from the earnings calculation and reducing the outstanding DSM balance by an equal amount.

A second alternative, Idaho Power suggests, is to leave the interest earned on the DSM balances in income and in the deferred account.  In so doing, however, the Company contends that the Commission would be pre-approving the amount of interest to be recovered prior to reviewing the balances included in the DSM deferral.

Staff agrees with the first alternative of Idaho Power, and recommends that the 1996 interest capitalized on the DSM deferred balance be deducted from the refund amount and the DSM deferred balance outstanding.  Especially in today’s environment, Staff doesn’t believe it makes sense to give customers a refund today and then charge them a larger amount in the future for the same item.  Reduction of the current refund by the 1996 interest eliminates the compounding of this interest resulting in a lower amount customers will pay in the future.  The appropriate revenue available for refund is $3,474,622.

DEFERRAL AND AMORTIZATION OF CORPORATE REORGANIZATION COSTS

The corporate reorganization costs deferred during 1996 amounted to $2,551,542.42.  Direct severance pay of $1,340,631.48 accounted for more than half of the cost.  All costs were directly assigned or allocated to the bulk power (supply) and distribution (retail) business units.  The monthly amortization to the bulk power unit which will occur through December 2005 is $1,872.75 and the amortization to the distribution unit is $21,752.64.  The corporate reorganization costs deferred during 1996 are amortized over nine years.  The appropriate monthly amortization amount was booked during 1996 for the reorganization costs incurred in 1995 for deferral and amortization over 10 years.

Idaho Power continues to defer the appropriate type of out-of-pocket expenses incurred in reorganization.

CALCULATION OF EARNINGS

Staff reviewed the earnings calculation and jurisdictional allocation factors for reasonableness and to determine if extraordinary items were included.  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 believes Idaho Power’s books and filing adequately reflects earnings to determine the sharing.

In the Staff’s comments to the 1995 earnings compliance filing, Staff questioned the emission allowances sold by Idaho Power.  After Idaho Power provided documentation to the Staff showing that Idaho Power has recovered Pac-Hide payments, Staff thought it reasonable to accept the Pac-Hide recovery as an offset for the Clean Air Emission Sales Revenues for ratemaking purposes.  Staff reviewed the amounts booked for the emission allowances sold by Idaho Power and the amounts recovered, after expenses, for the Pac-Hide recovery in 1996.  Idaho Power booked the revenues received from the sale of the emission allowances of $25,397 to Account 411.8, Gains from Disposition of Allowances.  Idaho Power booked the amount received from the recovery of the Pac-Hide clean-up to Account 925, Injuries and Damages.  The amount booked for the Pac-Hide recovery in 1996 was $809,918 after expenses.

Some of the more significant events and efforts in 1996 for Idaho Power were power outages, relicensing activities, focusing on deregulation and competition, continuing with corporate restructuring, and pursuing diversification.  Idaho Power realigned their business units, creating a “Marketing Business Unit” to focus on the changing energy marketplace.  Ida-West Energy Company, a wholly-owned subsidiary more than doubled its generating capacity.  Idaho Power Resources Corporation was formed in March 1996.  Idaho Power also established a Power Trading Floor in December to take advantage of favorable trading margins in the off-system energy market.  Idaho Power established a record for system peak demand in July.

STAFF RECOMMENDATION

Staff recommends acceptance of the compliance filing and the revenue sharing as proposed by Idaho Power.  The 12.55% return on year-end common equity does not require additional amortization of ADITC; it does provide sharing to ratepayers.  Staff recommends the Commission accept Idaho Power’s 1996 Earnings Compliance filing and that $3,474,622 be refunded to ratepayers in the Power Cost Adjustment (PCA) rate adjustment effective May 15, 1997.

DATED at Boise, Idaho, this              day of May 1997.

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Scott Woodbury

Deputy Attorney General

Technical Staff:  Kathy Stockton

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