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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF THE ASSET PURCHASE AGREEMENT WITH THE CITY OF IDAHO FALLS (NINA, CHARLA, AND MERLIN DRIVE).	**CASE NO. PAC-E-18-04** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Sean Costello, Deputy Attorney General, submits the following comments.

BACKGROUND

On May 3, 2018, Rocky Mountain Power, a division of PacifiCorp ("Company") filed an Application requesting authority to sell and transfer certain electric facilities to the City of Idaho Falls, Idaho ("City"), to supply electric service to locations at or near Nina Drive, Charla Drive, and Merlin Drive, Idaho Falls, Bonneville County. On June 8, 2018 the Commission issued Order No. 34082, Notice of Application and Notice of Modified Procedure with a comment deadline of August 28, 2018.

Pursuant to provisions of the Electric Stabilization Act ("ESSA"), *Idaho Code* § 61-328 and 333, the Company now applies for approval of the Asset Purchase Agreement between Rocky Mountain Power and the City of Idaho Falls, both electric suppliers under the ESSA, to purchase certain electric facilities currently owned and utilized by the Company to supply electric service to locations at or near Nina Drive, Charla Drive, and Merlin Drive, Idaho Falls, Bonneville County.

On October 9, 2017, the Company and City entered into an Allocation Agreement ("2017 Agreement") "to reduce duplication of service and promote stability in their respective service areas." Application at 2. The 2017 Agreement was approved by the Commission on December 5, 2017, finding that it complies with the ESSA. *See* Case No. PAC-E-17-12; Order No. 33943.

Under the terms of this agreement (*see* Attachment A to the Application), the Company agrees to transfer the service territory described in Exhibit B. The City agrees to serve the load of customers located within that service territory, to pay the Company for assets being transferred, to reimburse the Company for lost revenue, and to pay legal and transactional costs.

In the 2017 Agreement, "[t]he Company and the City have agreed to transfer service and the City has agreed to pay 167 percent of the customers' previous twelve months electric bills in addition to purchasing the facilities described in Exhibit A to the Asset Purchase Agreement." Application at 3. Under this provision in the present case, the Company and City have agreed to a total asset sales price of $92,713. The Company's accounting treatment is also set forth in the Application. *See* Exhibit A to the Asset Purchase Agreement.

STAFF ANALYSIS

Staff analyzed the asset sale and determined that it conforms to the provisions of ESSA and prior Commission orders. Staff determined that funds from the sale are sufficient to offset the undepreciated rate base of assets being transferred to the City, and that the Company's accounting treatment assures that the value of these assets are removed completely from rate base.

Sales Price and Accounting Treatment

The $92,713 sales price includes the value of existing assets, an income tax gross up, lost customer revenue, separation costs, and legal/transaction costs. These costs, and the method used to calculate them, are consistent with the methodology prescribed in the 2017 Agreement and approved in Commission Order No. 33493. Staff believes that the Company's accounting treatment of funds derived from the sale will assure that other rate payers are not harmed.

Sale Component	Sales Price
Sale of existing assets	$17,996
Lost customer revenue	$63,196
Tax gross up	$ 9,048
Separation costs	$ 2,474
Total sales price	$92,713

The existing asset price was calculated using the replacement value of each asset less depreciation. Replacement value was determined using the Company's Retail Construction Management System, and depreciation was determined using a straight-line methodology consistent with prior Commission orders. Lost customer revenue was calculated using 167 percent of revenues from the 12 most recent months of service for each customer in the affected area.

The Company explained that the income tax gross up corrects for the difference in straight-line depreciation used by the Commission to determine asset value, and accelerated depreciation used for income tax purposes. The Company also explained that separation costs are expenses incurred to physically separate the assets being sold from the Company's distribution system, and that legal/transaction costs include the costs of estimation, accounting, finance, regulation, and legal expenses related to the sale.

<u>Customer Notification</u>

In its responses to Staff's Production Request Nos. 7, 11, and 12, and supplemental responses to Staff's Production Request Nos. 7 and 11, the Company explained that the request to change service from the Company to the City was initiated by the residents of Prestwich Estates, a subdivision that had been annexed by the City. The Company further explained that all customers in Prestwich Estates agreed to the transfer.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Asset Purchase Agreement provided as an attachment to the Company's Application.

Respectfully submitted this 28th day of August 2018.

Sean Costello
Deputy Attorney General

Technical Staff: Kevin Keyt
Brad Iverson-Long
Mike Morrison

i:umisc/comments/pace18.4sckkblmm comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 28th DAY OF AUGUST 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF TO,** IN CASE NO. PAC-E-18-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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