

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF EASTERN IDAHO)
RAILROAD'S OBJECTION TO ITS 2014) CASE NO. EIR-R-14-01
ASSESSMENT FEE)
) ORDER NO. 33144
)

On May 15, 2014, Eastern Idaho Railroad (“Eastern Idaho” or “Company”) sent a letter to the Commission registering its objection, pursuant to *Idaho Code* § 61-1007, to the Company’s 2014 Railroad Assessment Fee. Eastern Idaho attached several invoices as attachments, documenting the Commission’s Fee Assessment as well as the Company’s gross operating revenues for the calendar year of 2013.

On May 29, 2014, the Commission issued a Notice of Objection to Assessment and Notice of Modified Procedure with a 90-day comment period. *See* Order No. 33046.

On August 27, 2014, Commission Staff submitted its written comments after conducting an audit of the Company’s revenue records. Eastern Idaho declined the opportunity to submit reply comments.

THE COMPANY’S OBJECTION

The Commission’s operating budget is derived from the assessment of regulatory fees upon utilities and railroads subject to the Commission’s jurisdiction. *Idaho Code* § 61-1003 provides that on or before April 1st of each year, each railroad corporation shall report its gross operating revenues from its intrastate railroad business in Idaho for the preceding calendar year. Based upon the total amount of gross intrastate revenues reported by all the railroads, the Commission then determines the proportionate assessment applicable to each railroad to recover the Legislature’s authorized appropriation.

Once each railroad’s assessment is determined, the Commission notifies the railroad of its regulatory fee no later than May 1st of each year. Such fee shall be paid to the Commission in equal semi-annual installments. *Idaho Code* § 61-1005. Any utility or corporation may object to the fee “on or before the time specified for payment for the first installment of the assessment made against it.” *Idaho Code* § 61-1007.

In its letter to the Commission, Eastern Idaho acknowledges that it committed an error in reporting to the Commission its gross *interstate* operating revenues instead of its gross

intrastate operating revenues. Allegedly, the difference between Eastern Idaho's 2013 Gross Interstate Revenues (\$16,336,596.00 – Attachment B) and its 2013 Gross Intrastate Revenues (\$3,236,286.00 – Attachment C) is significant. The Company awaits “acknowledgement of its objection and further instructions from the Commission on how to proceed in this matter.”

STAFF COMMENTS

In its Objection Letter, the Company's tax accountant, Ms. Diane Steffen, CPA, mentioned in phone conversations that the Company had actually stated total revenues for 2013, and not interstate revenues. The Company later stated that \$16,543,009 was the total revenue number for 2013 which conflicts with the Objection Letter. Staff performed an audit to determine the correct amount. Staff reconciled the accounting system output to the revenues found in the audit and performed assurance testing on that revenue figure. Staff analysis reflects reasonable certainty that the total gross interstate revenues in 2013 for the Company are \$16,543,009.

Intrastate Revenues

Following the methodology outlined in Case No. EIR-R-01-01, intrastate revenue is determined to be all revenue “. . . generated by activity that happens only in the State of Idaho. The origination and ultimate destination must be within the state.” Case No. EIR-R-01-01, Staff Exhibit No. 13, p. 6. The Company has an RMI system that is used to record the origination and destination of each load used to create an allocation method for determining the amount of intrastate freight revenue. Staff found in the audit that the RMI system cannot be reconciled to the general ledger system and that there were many entries that had neither an origination nor destination location indicated. The Company has identified this problem and corrected it for 2014, so it should not be a concern in the future. Staff accepts that the allocation is the best method in these circumstances and the allocation factor generally agreed with the invoices Staff inspected during the audit. This results in total intrastate freight revenue of \$645,841.

Because the Company operates entirely in Idaho all other revenues take place in Idaho. Therefore, the remainder of the revenue that is not freight-related revenue will be assigned to intrastate revenue. This includes demurrage revenue of \$1,119,760, switching revenue of \$426,320, and incidental revenue of \$1,468,623.

Staff recommended total intrastate revenue to be \$3,660,544. *See Confidential Attachment to Staff Comments.*

Staff also discovered that there may have been other erroneous filings in the past. *See Confidential Attachment A.* In the confidential response to Production Request 3, the Company noted that changes have been made to their internal procedures in order to prevent erroneous filings in the future. Staff expressed concern about the lack of origination and destination information provided in the RMI system, as well as the inability to reconcile the RMI output to the general ledger. This resulted in using an allocation factor instead of direct assignment of revenues to interstate and intrastate operations. The Company asserted that the problem has been corrected and will not be an issue in the future.

Staff recommended another audit be performed on the 2014 revenue report with a special focus on the effectiveness of the changes on internal oversight/controls. Staff recommended the Commission accept the amount of \$3,660,544 as the Idaho intrastate operating revenue for Eastern Idaho Railroad for the year 2013. This would result in a reduction of \$12,676,052 in reported Idaho interstate revenues (\$16,336,596 - \$3,660,544).

COMMISSION FINDINGS

Based upon our review of Eastern Idaho's Objection Letter and Staff comments, the Commission finds that Eastern Idaho filed a timely objection to its 2014 assessment. We further find that Eastern Idaho overreported its gross intrastate operating revenue for calendar year 2013.

Based upon Staff's review of the Company's intrastate revenue source records and Eastern Idaho's lack of objection to Staff's corrected intrastate revenue amount, we find the Railroad's correct intrastate gross operating revenue for calendar year 2013 to be \$3,660,544. Applying the assessment percentage of 0.5327%, as mandated by Commission Order, to the corrected revenue of \$3,660,544 produces a corrected 2013 regulatory fee of \$19,499.72.

ORDER

IT IS HEREBY ORDERED that the total intrastate revenues for Eastern Idaho Railroad for the year 2013 totaled \$3,660,544. Accordingly, the Company's 2014 regulatory assessment fee shall be \$19,499.72.

IT IS FURTHER ORDERED that the Commission shall refund in a timely manner to Eastern Idaho Railroad the difference between the regulatory fee previously remitted by the Company to the Commission and the corrected 2014 regulatory assessment fee of \$19,499.72.

IT IS FURTHER ORDERED that an audit of the Company's internal oversight/controls and intrastate revenues shall be performed for the 2014 operating year to verify compliance with the definition of intrastate revenues outlined in Case No. EIR-R-01-01.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *Idaho Code* §§ 61-626.

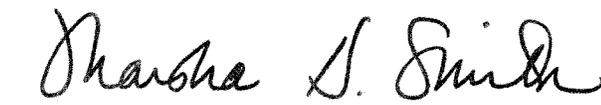
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30th day of September 2014.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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