

ATLANTA POWER COMPANY INC.
11140 CHICKEN DINNER ROAD
CALDWELL, IDAHO 83406

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IDAHO PUBLIC
UTILITIES COMMISSION

June 11, 2008

Idaho Public Utilities Commission
P.O. Box 82720
Boise, Idaho 83720-0074

ATL-E-08-02

ATTENTION COMMISSION SECRETARY AND HEAD LEGAL SECRETARY

Enclosed is an original and seven (7) copies of Applicant's reply to the comments of the Idaho Public Utilities Commission Staff filed in this case on June 5, 2008

Sincerely,



Israel Ray
President

Israel Ray
Atlanta Power Company, Inc.
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Representative for Atlanta Power Company, Inc.

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
ATLANTA POWER COMPANY)
FOR AN ORDER AUTHORIZING INCREASES IN)
THE COMPANY'S RATES AND CHARGES FOR)
ELECTRIC SERVICE IN THE STATE OF IDAHO)**

CASE NO. ATL-E-08-2

**REPLY TO
STAFF COMMENTS**

COMES NOW Atlanta Power Company Inc., ("Atlanta Power", "Applicant" or "Company") and hereby files the following reply to the Comments of the Idaho Public Utilities Commission Staff (Staff).

1. Staff at page 3 of its comments recommends that the Commission not recognize the actual interest rate of fourteen percent (14%) the Company is paying on a seven (7) year \$100,000 note. Staff instead recommends an interest rate of twelve percent (12%) arguing that this is a more reasonable rate and is equivalent to the return on equity rate the Commission has allowed other small utility companies. Applicant does not agree that the owners should subsidize the carrying costs of this note. The circumstances that gave rise to the need to borrow these funds were extraordinary and unexpected. Applicant was unable to acquire loan funds at a more reasonable rate. This note adversely affects the Company's already poor cash flow requirements. The Company proposes that the Commission accept the real carrying costs of this note for the

purpose of establishing a temporary emergency surcharge so the Company can meet its loan repayment obligations without additional capital infusion by owners. Should the Commission determine through its investigation of the remainder of this case that this note was imprudent; any temporary over-collection determined by the Commission can be refunded by adjustment to rates determined by the Commission in its final order in this case.

2. Staff at page 4 of its comments takes exception to the recovery of a one year \$10,000 note through a one year surcharge to customers. Staff instead recommends the recovery of this note over a longer seven (7) year surcharge period. Applicant is willing to accept the Staff proposal on this issue as a compromise. Owners of the Company have already subsidized the carrying costs of this loan for a period of approximately 6 months at \$833.00 per month or approximately \$5,000.00.

3. Staff at page 4 recommends the exclusion of \$18,808, owed by the Company to its owner, from its recommended surcharge calculations. Staff argues that deferred owner wages and the appropriate treatment of an owner's loan for ratemaking purposes have not been established in this case. The Staff does not dispute the existence of these loaned amounts. Staff relies on the Commission's Order No. 30511 (Case No. ATL-E-08-1) that ordered that the Company's owners be solely responsible for payment of any portion of these notes that are disallowed in a future rate proceeding. Staff further argues that excluding the owner loans from the temporary emergency surcharge prevents the potential recovery of disallowed costs during the general rate case review. Later on page 5 of its comments, Staff states "*...Staff recommends that the prudence of these extraordinary expenditures be determined contemporaneously with the review of the Company's costs and records supporting its request for a*

general base rate increase. Staff recommends that the issue of a surcharge, its amount and treatment be revisited at that time.”

Staff recognizes, as does the Applicant, that any surcharge granted in this case is subject to adjustment by the Commission during the course of the Commission's investigation. Disallowing recognition of funds loaned to the Company by its owner unfairly deprives the owner of the recovery of his costs and adversely affects the Company's already poor cash flow. Any over recovery the Commission may ultimately determine exists can be refunded through the review and adjustment of the surcharge amounts Staff has itself recommended. Applicant opposes the Staff recommendation to exclude the owner loans from the surcharge calculations.

4. Staff at page 6 recommends that the surcharge recovery calculation be based upon the number of customer connections during the year 2007 applied to customer average use data from the year 2006. Applicant does not object to this approach. Exhibit No. 10 attached presents the results of our calculations using the Staff methodology, adjusted for the other adjustments to the Staff recommendations discussed in this reply. Exhibit No. 10 is discussed later in these comments under "Summary Recommendations".

5. Staff at page 6 further recommends that two customers be added to the customer base and impute revenues attributable to them in calculating the required surcharge. One is the home of employees of the Company who are full time residents of Atlanta. As part of their compensation package, their home is provided with electric power at no cost. Their home provides office space to the Company at no additional cost to the Company and provides a local phone number for customer contact. Were these employees required to pay an electric bill, their effective compensation would be reduced. A wage increase would be required to

restore their compensation resulting in increased costs on the other side of the Company's income statement.

The second customer is property used by the Company's owner for temporary housing when he is in Atlanta for Company business. The property also is the site of the standby diesel generator, has two buildings used for storage of electrical equipment, provides for parking and storage of the Company's equipment. It just doesn't make sense for the Company to charge itself electric energy rates that would simply become operating costs on the other side of the income statement.

The issue of this Company providing free electrical service to certain business related customers was extensively discussed in Idaho Public Utilities Commission Order No. 24925 in Case No. ATL-E-93-1. Four (4) page Exhibit No. 11 attached is pages 5 through 8 of that order. The Applicant opposes this Staff recommendation.

SUMMARY RECOMMENDATION

Applicant proposes a surcharge revenue requirement as shown in the following table similar to the table included in the Staff Comments at page 5:

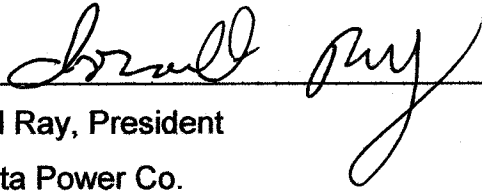
Notes/Loans	Staff Revenue Per Month	Co. Revenue Per Month
Promissory Note \$100,000	\$1,765	\$1,874
Promissory Note \$10,000	\$177	\$177
Owners Funds \$18,808	-0-	\$322
Total Monthly Recovery	\$1,942	\$2,383
Total Annual Recovery	\$23,302	\$28,596

Exhibit No. 10 attached is a one page exhibit that summarizes Applicants proposal to the Commission based upon the above discussion. Lines 1 through 4 were prepared to replicate Staff's calculations without including the "Free Electricity" to employees. This calculation produces an overall surcharge rate as shown on line 4 of 31.9%.

Lines 5 through 8 represent an attempt to replicate exactly the Staff's proposal shown on Attachment "A" to their comments. This calculation produces an overall surcharge rate of 31.26% as shown on line 8 as opposed to the rate of 31.74% proposed by Staff. The Company's discussions with Staff regarding these calculations indicate that Staff has discovered a small error in its calculations. A recalculation by Staff appears to nearly equal the results presented here.

Finally, lines 9 through 12 present the Applicants alternative surcharge recommendation incorporating the Staff recommendations accepted by Applicant as discussed above. This calculation produces a surcharge requirement of 39.15% as compared to the Company's original request of 54.2% and Staff's recommended 31.74%.

Respectfully submitted this 11th day of June 2008.



Israel Ray, President
Atlanta Power Co.

ATLANTA POWER COMPANY
SURCHARGE REVENUE REQUIREMENT
REPLY EXHIBIT TO COMMISSION STAFF COMMENTS

To Replicate Staff's Attachment "A"

Without Employee "Free Electricity"

Rate Schedule	# Cust 2007	2006 Adjusted KWh Subj to KWh Charges	Excess KWh	Adjusted Base Rate Revenue	Total Adjusted Revenue	Staff Proposed Surcharge Revenue	Percent Change
1 Permanent Residential	250	9,750	\$ 488	\$ 20,250	\$ 20,738	\$ 6,615	31.90%
2 Permanent Commercial	59	83,485	\$ 15,027	\$ 8,496	\$ 23,523	\$ 7,504	31.90%
3 Seasonal Residential	590	38,765	\$ 8,141	\$ 20,650	\$ 28,791	\$ 9,184	31.90%
4 Totals	899	132,000	\$ 23,655	\$ 49,396	\$ 73,051	\$ 23,303	31.90%

To Replicate Staff's Attachment "A"

With Employee "Free Electricity"

Rate Schedule	# Cust 2007	2006 Adjusted KWh Subj to KWh Charges	Excess KWh	Adjusted Base Rate Revenue	Total Adjusted Revenue	Staff Proposed Surcharge Revenue	Percent Change
5 Permanent Residential	262	8,646	\$ 432	\$ 21,222	\$ 21,654	\$ 6,769	31.26%
6 Permanent Commercial	59	83,485	\$ 15,027	\$ 8,496	\$ 23,523	\$ 7,353	31.26%
7 Seasonal Residential	602	39,553	\$ 8,306	\$ 21,070	\$ 29,376	\$ 9,183	31.26%
8 Totals	923	131,684	\$ 23,766	\$ 50,788	\$ 74,554	\$ 23,306	31.26%

Company Proposed Alternative

Using Staff Proposed use of 2007 customers

Rate Schedule	# Cust 2007	2006 Adjusted KWh Subj to KWh Charges	Excess KWh	Adjusted Base Rate Revenue	Total Adjusted Revenue	Company Proposed Surcharge Revenue	Percent Change
9 Permanent Residential	250	9,750	\$ 488	\$ 20,250	\$ 20,738	\$ 8,118	39.15%
10 Permanent Commercial	59	83,485	\$ 15,027	\$ 8,496	\$ 23,523	\$ 9,208	39.15%
11 Seasonal Residential	590	38,765	\$ 8,141	\$ 20,650	\$ 28,791	\$ 11,270	39.15%
12 Totals	899	132,000	\$ 23,655	\$ 49,396	\$ 73,051	\$ 28,596	39.15%

required to obtain authorization "by Order of the Commission and not otherwise" (emphasis added). I.C. 61-901. Nevertheless, based on our review of the record in this case, the Commission finds the security issuance by Atlanta Power Company to be reasonable. Our consideration of the matter in this case will suffice as the required review. Atlanta Power, however, is advised to be mindful of the required Chapter 9 compliance for future security issuances.

"Free" Electricity

Staff's revenue requirement adjustment relating to the provision of "free" electricity to Harold Lanning was the only adjustment vigorously challenged by the Company. Tr. pp. 10, 11. The underlying agreement between Greylock Mountain Power Company (Greylock) and Harold Lanning for purchase of the utility states that Mr. Lanning is to be provided with "free electricity" to his residence for 15 years and to his shop for eight years. The obligation runs from the date of the agreement, May 11, 1984. Atlanta Power Company assumed Greylock's obligation in July 1985. The Company became regulated and was issued a Certificate of Public Convenience and Necessity by the Commission on January 22, 1986.

The Company's obligation if any, to provide free electricity to the shop expired May 1992. The Company indicates that there is no separate metering for the shop and that there are no plans to meter it. The Company estimates that the shop may use 2000 kilowatt hours per year. The Company states that the shop will be disconnected unless Mr. Lanning wants to keep the power there and pay for it. Tr. pp. 44, 45.

Staff contends that providing power without billing violates *Idaho Code* Title 61 § 315, Staff also cites *Davenport v. Idaho Metals Company*, PUCI Case F-473, Order 850, PUR 1922D 506: "contract to furnish free telephone service as part of the consideration or purchase price of the telephone system is discriminatory." Staff finds no distinction meriting different treatment for an electric utility. Tr. pp. 128, 129.

The Company's response is that had there not been an arrangement to provide free electricity, the purchase price of the facility would have been greater. This theoretically would have increased the Company's rate base and authorized return. Tr. pp. 10, 11. Providing "free" electricity was the smart thing to do, the Company argues, because there has always existed significant

excess capacity in the hydro generation system. The Company provides similar justification for providing free power to its two site employees. Tr. p. 11.

Counsel for the Company argues that for an action to be discriminatory it must constitute an unreasonable discrimination against other customers; it must impose additional costs on them. Such are not the facts in this case, however, the Company argues. In this case the alternative to providing free electricity, the Company contends, would be to impose additional costs on the other customers. Therefore, the Company concludes, "it is not unreasonable discrimination. It is not unreasonable to use that surplus capacity to cover costs that would otherwise require financing or actual cash expenditures." Tr. p. 180.

The power consumption of Mr. Lanning is not insignificant. For the 12-month period ending May 30, 1992, Mr. Lanning's metered consumption was 40,190 kilowatt hours. Tr. p. 44. The Company's total adjusted annual system sales are, by way of comparison, only 165,000 kilowatt hours per year. Tr. pp. 23, 130. With adequate river flow, it is evident, however, that the Company can generate and distribute twice the existing electrical demand. Tr. p. 145.

Regarding the providing of free power to Mr. Lanning, Staff proposed a revenue requirement adjustment of (\$2,398), the cost of which it contends should be borne by Company stockholders. Tr. p. 129. Staff provided no estimate for the actual incremental cost of generation and distribution. Tr. p. 138. Staff indicated on cross that its terminology was inaccurate and that rather than "cost", what it actually meant and what the figure reflects is "revenue lost." Tr. p. 139.

Regarding the providing of free power to Company employees, Staff recommends that rather than netting wages payable against revenue due, the Company should record gross wages and all revenue. Tr. p. 129. In response, the Company contends that if it is required to pay its employees a wage, it should be able to earn a return on it. Tr. p. 11.

Based on our analysis of the record, the Commission finds that the parties have mischaracterized the issue as being one of "free" electricity. In each instance, power is provided as compensation for something received. In the