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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AN) **CASE NO. IPC-E-06-6**
ACCOUNTING ORDER ADDRESSING THE)
DEFERRAL OF COSTS RELATED TO THE)
DEVELOPMENT OF GRID WEST.)
) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 30082 on June 29, 2006, submits the following comments.

BACKGROUND

On April 4, 2006, Idaho Power Company filed an Application requesting an accounting Order from the Commission authorizing the deferral of costs the Company incurred relating to the development of a regional transmission organization (RTO). Idaho Power alleges it participated in efforts to develop an RTO, now called Grid West, pursuant to Orders issued by the Federal Energy Regulatory Commission (FERC). The Application states that Pacific Northwest electric utilities have been involved in the RTO development process since 2000, and that the costs incurred by the utilities were to be repaid through surcharges on customers after the

RTO became operational. It now appears the development of Grid West is unlikely, and Idaho Power requests authorization to defer the amounts it loaned to Grid West, with interest, in the development process. An accounting Order authorizing deferral of costs does not represent the final determination of reasonableness or the amount of the costs ultimately recovered in rates.

Idaho Power states its expenditures relating to the development of Grid West fall into two categories. The first category is costs incurred in the form of loans to Grid West under a series of funding agreements. The second category of Idaho Power's development costs are internal incremental costs, which consist of the disbursement of cash and payment of costs in addition to amounts loaned to Grid West. Idaho Power states it has loaned a total of \$1,274,158 to Grid West and expended a total of \$2,594,318 in incremental internal costs. Idaho Power states the Idaho jurisdiction of the total amount loaned and expended is \$3,350,874.

STAFF REVIEW

Staff has reviewed the Company's Application as well as FERC Order No. 888 and FERC Order No. 2000. FERC Order No. 888 instructs utilities to open their transmission lines to competitors in an effort to reduce wholesale electricity prices and ultimately bring lower prices to ratepayers. FERC Order No. 2000 placed the impetus on transmission owners to develop an RTO or explain why such an organization could not be created. Staff is satisfied that Idaho Power's participation in Grid West was compliant with the intentions of FERC.

On a case-by-case basis, this Commission has generally allowed deferred accounting treatment for expenses that are extraordinary and unusual in nature, mandated by regulatory authority and which provide benefits to customers. Though Grid West ultimately provided no benefits to customers, the expenses were extraordinary and unusual in nature and were mandated by FERC. Staff recommends that the Commission authorize Idaho Power to transfer the principal amount of the funding agreements with Grid West to account 182.3 (Other Regulatory Assets). A separate sub-account should be maintained, facilitating Staff's audit of these expenses in a future rate case. Staff also recommends that the recovery of these costs and the amortization period used for recovery be addressed in the Company's next general rate case filing. As the Commission has previously noted on numerous occasions, a deferred accounting Order does not constitute Commission approval to recover these costs from Idaho Power customers. The incremental internal costs are discussed separately below, along with the interest on the funding agreements, carrying charges and amortization period absent a rate case.

Incremental Internal Costs

Idaho Power is the only one of the three Idaho electric utilities participating in Grid West that deferred incremental internal costs in account 186 (Miscellaneous Deferred Debits). Both Avista and PacifiCorp expensed these costs as they were incurred. Idaho Power deferred these expenses without any agreement with Grid West that these expenses would be reimbursed. Idaho Power states in response to Audit Request No. 4 that it “did fully believe that it would be allowed to include an amortization of the deferred internal incremental costs in its annual transmission revenue requirement that would be reimbursed by Grid West.” Idaho Power further states that this belief was based upon the letter received from FERC that confirmed it was acceptable for Idaho Power to book these expenses in account 186, and not based on any correspondence from Grid West itself. Idaho Power included a copy of this letter with its Application.

The instructions for account 186 state that this account is to be used for expenditures that are not provided for elsewhere, such as miscellaneous work in progress and unusual and extraordinary expenses, and items where the proper disposition is uncertain. Even with FERC approval to use account 186 for the incremental internal expenses, there is no guarantee that these expenses would be amortized or reimbursed. Furthermore, the letter from FERC, which the Company included with its Application, goes on to state that its approval to use account 186 “is for accounting purposes only and does not constitute a finding that the costs are just and reasonable, prudently incurred, or otherwise approved for rate making treatment.” The letter offers no guarantees that Idaho Power would be able to recover the incremental internal expenses from Grid West.

Without any agreement from Grid West for reimbursement of these incremental internal expenses, Idaho Power had no reason to believe these costs would be reimbursed. Staff believes these expenses are not eligible for deferral treatment because Idaho Power did not seek Commission approval to defer the expenses prior to incurring them; a prerequisite this Commission has stated and upheld on several occasions. In fact, Staff believes the internal expenses are normal operating costs and should be expensed. Expensing these costs is consistent with the treatment by Avista and PacifiCorp. Therefore, Staff recommends that the Commission deny Idaho Power’s request to transfer the incremental internal expenses to account 182.3 to be held for future recovery.

Interest on Funding Agreements

Idaho Power accrued interest on the loan amounts provided to Grid West at the rates established by FERC for refunds, pursuant to 18 CFR 35.19a. The total interest accrued through March 31, 2006 is \$197,068.60. Idaho Power ceased to accrue interest on the loans after that date. Staff believes Idaho Power should not be allowed to defer for future recovery the amount of interest accrued on the promissory notes to Grid West for two reasons. First, had Grid West been successful, the interest on these loans would have been paid by Grid West as a return on Idaho Power's investment in the RTO. Grid West was not successful, and customers should not be required to pay for Idaho Power's return on a failed investment. Furthermore, Idaho Power never had any cash outlay for the interest portion, and the return of the actual expenditure is sufficient recovery for the utility without interest accrual.

Carrying Charges

Idaho Power does not request a carrying charge on the deferred balance. Deferred accounting will allow Idaho Power to request recovery of its prudent costs at a future date. Absent deferral, the opportunity for recovery is not currently allowed. Staff believes the opportunity for Idaho Power to recover these costs is sufficient to the Company without interest, thus eliminating the necessity of accruing carrying costs on the deferred balance. If the deferral were not approved, no interest would accrue and the recovery of any underlying costs would be doubtful. The deferral method facilitates later recovery of the amortization of these costs in rates.

Amortization Period

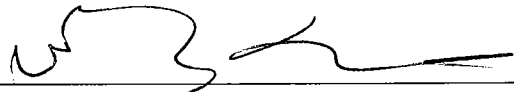
To prevent excessive deferrals from building up on the balance sheet, Staff recommends that the Company begin amortization of the deferred balance at the conclusion of its next general rate case or on January 1, 2010, whichever occurs first. Amortization beginning no later than January 1, 2010 is warranted since the expenditures were incurred in response to FERC directives. Immediate amortization would be appropriate for expenditures directly under the Company's control. An amortization period beginning no later than 2010 will also allow any continued efforts for an RTO to be better known. Staff believes that the initial amortization

period should be five years unless a different time period is supported by a party in a general rate case and is approved by the Commission.

STAFF RECOMMENDATIONS

1. Staff recommends that the Commission authorize Idaho Power to transfer the principal amount of the funding agreements for the Grid West start up costs into account 182.3 (Regulatory Assets and Liabilities), utilizing a separate sub-account specifically for these amounts.
2. Staff recommends that the Commission deny Idaho Power's request to defer the incremental internal costs.
3. Staff recommends the Commission not allow the deferral of accrued interest on the Grid West loans.
4. Staff recommends the Commission not approve any carrying charges on the amounts deferred.
5. Staff recommends that the Commission order amortization of the deferred amounts to begin no later than January 1, 2010 absent a rate case Order establishing different treatment.

Respectfully submitted this 14th day of August 2006.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Donn English

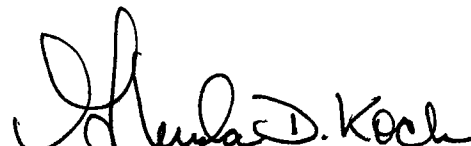
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF AUGUST 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-06-6, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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