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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF EASTERN IDAHO
RAILROAD'S OBJECTION TO ITS 2014
ASSESSMENT FEE.**

)
) **CASE NO. EIR-R-14-01**
)
) **COMMENTS OF THE**
) **COMMISSION STAFF**
)
)

COMES NOW the Staff of the Idaho Public Utilities Commission (Commission), by and through its attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Objection to Assessment and Notice of Modified Procedure issued in Order No. 33046 on May 29, 2014 in Case No. EIR-R-14-01, submits the following comments.

BACKGROUND

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 included 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.

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 – Company Attachment B) and its 2013 Gross Intrastate Revenues (\$3,236,286.00 – Company Attachment C) is significant.

STAFF ANALYSIS

Total Revenues

In its Objection Letter, the Company claimed that instead of reporting intrastate revenues for 2013 of \$3,236,286 the Company reported interstate revenues of \$16,336,596. (Objection Letter at 1) This is total revenue of \$19,572,882. 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. In the initial Staff production requests, the Company stated total revenues for 2013 to be \$16,543,009. This conflicts with the Objection Letter. Staff performed an audit of the revenues of the Company to determine the correct amount. Staff was able to reconcile 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 revenues in 2013 for the Company are \$16,543,009.

Intrastate Revenues

Staff followed the methodology determined in Case No. EIR-R-01-01 to determine intrastate revenue as all revenue "...generated by activity that happens only in the State of Idaho. The origination and ultimate destination must be within the state." (EIR-R-01-01, Staff Exhibit No. 13, p. 6) This could be established on a load by load basis, but the general ledger system does not have this detail broken out. 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 fixed this problem for 2014 so it should not be a concern in the future. Staff accepts that the allocation is the best method with these circumstances and the allocation factor generally agreed with the invoices inspected. This results in total intrastate freight revenue of \$647,841.

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 recommends total intrastate revenue to be \$3,660,544. *See Confidential Attachment A.*

Other Findings and Recommendations

Staff 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 stated the changes in the internal procedures in order to prevent erroneous filings in the future.

Staff is very concerned 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 has stated that this problem has been fixed and will not be an issue in the future.

After considering all of these factors Staff recommends that a subsequent audit be performed on the 2014 revenue report. Revenues will be verified and internal controls will be examined to assure that all of these changes are effective.

RECOMMENDATIONS

Staff recommends an audit to be performed on the 2014 revenue report with a special focus on the effectiveness in the changes on internal oversight/controls.

Staff recommends 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).

Respectfully submitted this 27th day of August 2014.



Neil Price
Deputy Attorney General

Technical Staff: Joe Terry

Umisc/comments/eirr14.1npj comments

ATTACHMENT A
IS
CONFIDENTIAL

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 27TH DAY OF AUGUST 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. EIR-R-14-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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