

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. IPC-E-17-17
OF IDAHO POWER COMPANY FOR AN)	
ORDER APPROVING THE TRANSFER)	
AND SALE OF CERTAIN ASSETS TO THE)	ORDER NO. 33987
CITY OF MERIDIAN, IDAHO)	

On December 6, 2017, Idaho Power Company applied to the Commission for an order approving the Company's agreement to sell certain Company-owned assets to its customer, the City of Meridian, under Rule M "Facilities Charge Service" in the Company's Tariff. *See* Application. The Commission issued an order setting a January 25, 2018 deadline for interested persons to file comments, a February 8, 2018 deadline for the Company to file reply comments, and a January 22, 2018 public hearing. Order No. 33961. Commission Staff filed the only comments, and recommended that the Commission approve the Application. The Company did not reply. No public comments were received, and no one appeared and testified at the public hearing.

Having reviewed the record, the Commission grants the Company's Application as follows.

BACKGROUND AND APPLICATION

With this Application, the Company asks the Commission to approve the Company's proposal to sell to the City assets or facilities beyond the "point of delivery." The point of delivery (POD) is the point at which the customer's power-usage is measured, and "beyond the POD" refers to the customer side, rather than the utility side, of the POD. Order No. 33470 at 1. The Company historically has dedicated the assets at issue to serving the City's wastewater treatment plant. The Company asked the Commission to approve the sale under Company Rule M,¹ which governs the sale of Company-owned assets or facilities that are—as here—beyond the POD. *See* Application. The Company and City agree the City will buy these assets and "obtain title to and assume ownership, operation, maintenance, and all liabilities associated with" them. *Id.* at 2.

¹ Tariffs are rules governing a particular utility, adopted by Commission Order under *Idaho Code* § 61-622. Idaho Power Company's Rule M Facilities Charge Service can be found on the Commission's web site, at: <http://www.puc.idaho.gov/fileroom/tariff/electric/Idaho%20Power%20Company.pdf>.

In its Application, the Company proposed to sell the assets for \$761,693. *See* Application Exhibit B, at 16. The Company explained this price assumed the sale would close in 2017, and that the parties agreed the price could change if the closing date changed. *Id.* at 8. The Company also explained it provided the methodology for determining this price to the City, and answered the City's inquiries, before the agreement was signed. *Id.* at 6. The methodology has five components: (1) net book value; (2) true up of past levelized rate of return; (3) near-term rate of return impact resulting from the sale; (4) near-term operational impact resulting from the sale; and (5) net tax gross-up. *Id.* at 6-8. Additionally, the Company would collect estimated work order closing costs and costs associated with a sectionalizer that the Company would continue to own but reprogram to become the wastewater facility's new POD. *Id.* at 8. The Company noted that, because the City would no longer pay a monthly Facilities Charge upon closing the sale, the Company would need the City to pay the sectionalizer's book value and the true up of the past levelized rate of return to ensure the transaction would not harm other customers. *Id.* at 9.

The Company's Application included a proposed accounting treatment for the transaction. *Id.* at 9-10.

After the Company applied, the Company notified the Commission that the closing date had moved to 2018, and that the price had decreased to \$668,805. *See* Updated Asset Purchase Price, filed January 19, 2018. The Company explained the new, lower price primarily was due to federal corporate income tax-rate changes that took effect January 1, 2018. The decreased price also reflected another year of depreciation in the net book value of the assets, another year of the true up of the past levelized rate of return, and other updates. The Company explained the new sales price included: (1) net book value (\$338,287); (2) true up of past levelized rate of return (\$90,486); (3) near-term rate of return impact resulting from the sale (\$63,319); (4) near-term operational impact resulting from the sale (\$83,016); and (5) net tax gross-up (\$77,266). *Id.* Additionally, the new price reflected that the Company would collect work order closing costs (\$480) and costs associated with the sectionalizer (\$15,951). *Id.* at 8.

The Company noted the updated price could change again if the Company replaced any of the assets before the transaction closed. *Id.*

THE COMMENTS

Commission Staff filed the only comments. Staff opined the proposed asset sale satisfies Rule M, the sectionalizer terms are appropriate, and the proposed accounting treatment is

reasonable. Staff thus recommended that the Commission approve the Application and sale as updated by the Company on January 19, 2018. Staff's comments are summarized below.

1. Asset Sale and Rule M

Staff explained that Rule M allows the City to buy the Company's "beyond the POD" facilities if: (1) there is no mixed ownership of facilities; (2) the City will operate and maintain the facilities; and (3) the City pays engineering costs for sales determinations. *See* Staff Comments at 3-4. Staff also explained that *Idaho Code* § 61-328(3) has guided the Commission in deciding whether to approve a Rule M transaction. *Id.* at 4 (citing Order No. 33514 at 8-9, Case No. IPC-E-15-26).²

Staff reviewed the proposed asset sale, and opined that it satisfies Rule M. Staff determined the transaction will not result in mixed ownership of facilities, and the City will assume ownership, operation, maintenance, and all liabilities associated with the purchased assets. On sales determinations costs, Idaho Power indicated the City would pay \$480 in work order closing costs, about which Staff expressed no concern. *Id.* at 4.

Using *Idaho Code* § 61-328 to guide its review of the transaction, Staff considered whether the: (a) transaction is consistent with the public interest; and (b) cost of and rates for supplying service will be not increase because of the transaction. Staff determined these factors were satisfied. *Id.* Staff noted the Company had represented the assets' price was calculated to ensure the sale would not harm the Company or its customers. *Id.* at 4. Staff explained the Company established the assets' sale price using the same method the Company used in Case Nos. IPC-E-15-26 (sale of assets to the Federal Bureau of Investigation) and IPC-E-16-31 (sale of assets to McCain Foods). The Company's method bases an asset's price on five components: (1) net book value; (2) true up of past levelized rate of return; (3) near-term rate of return impact from sale of assets; (4) near-term operational impact from sale of assets; and (5) net tax gross-up. The method used a flat monthly Facilities Charge (established in the Company's last general rate case in Order Nos. 32526 and 32481) equal to 1.41% of the original costs of Company-owned

² *Idaho Code* § 61-328 governs an electric public utility's sale of assets that have been used to generate, transmit, or distribute electricity "to the public or any portion thereof." In Order No. 33514, the Commission found these sections do not strictly apply where the property being transferred serves only a single customer and thus is not "devoted to public service." Order No. 33514 at 8-9. However, the Commission determined that the factors in § 61-328 are "an effective means of protecting the public interest and ensuring that ratepayers will not be harmed by such transactions," therefore they would be used for guidance. *Id.*

equipment installed, which decreases to 0.59% at the end of the assets' established 31-year depreciation life. *Id.* at 5-7.

Staff opined that the Company appropriately determined the sales price by including the assets' net book value and the true up of the assets' decreasing net book value and levelized payment schedule. *Id.* at 5. Staff agreed the transaction "could cause lost return until an alternate investment is made and recognized in a future general rate case," thus it is "reasonable to include a revenue loss component" by way of the "near-term rate of return impact" in the sale price. *Id.* at 6. Staff did not fully agree with the Company including the near-term operational impact in the sale price because, after the sale, the Company will have no Operation & Maintenance (O&M) or Administrative & General (A&G) expenses for the facilities. Staff thus opined the Company no longer needed to receive a component of Facilities Charge revenue to cover these expenses. *Id.* However, "Staff recognizes that the City has agreed to the sale price" and the agreement is otherwise consistent with provisions of *Idaho Code* § 61-328. *Id.* at 7. Finally, Staff agreed that the net tax gross-up was appropriate because of the "mismatch between the straight-line depreciation methodology used to determine book value and the accelerated depreciation methods used for assessing income taxes." *Id.* at 7.

Having opined that the Company had appropriately priced the assets, Staff cautioned it was not suggesting the Company's pricing method should be used in all future cases. Staff explained that each sale is unique, and that different circumstances may warrant different pricing methods and contract terms. *Id.* at 8-9.

2. Sectionalizer Terms.

Staff opined that the Company's proposed treatment of the sectionalizer was appropriate and would protect customers. Staff stated the Company originally installed the sectionalizer solely to benefit the City, with the City paying a monthly Facilities Charge. Under the agreement, the Company would continue to own, operate, and maintain the sectionalizer, which will be reprogrammed to serve as the wastewater treatment facility's new POD. The City would no longer pay a monthly Facilities Charge for that investment. But the City would pay the following sectionalizer-related amounts:

Updated Sectionalizer Book Value	\$9,321
Updated Sectionalizer True up of Past Levelized Rate of Return	\$4,908
Net Tax Gross-up	\$1,722
Total	\$15,951

Staff opined that the book value, true up of the levelized rate of return, and net tax gross-up (based on an adjusted sales price) for the sectionalizer are appropriate and protect customers. *Id.* at 7-8.

3. Accounting Treatment

The Company proposed to account for the transaction by removing the assets from its books, recording the gain on the sale of the assets, and recording the impact on the Company’s income taxes. Staff opined that the proposed accounting treatment is reasonable. *Id.* at 8.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over this matter under Title 61 of the Idaho Code, specifically *Idaho Code* §§ 61-502 and 61-503 (Commission has power to investigate a public utility’s contract). The Commission has reviewed and considered the Company’s Application, its agreement with the City, and Staff Comments. The Commission also held a public hearing. The Commission did this because Idaho Code § 61-328 mandates “[t]he [C]ommission shall issue a public notice and shall conduct a public hearing” whenever an electric utility applies to transfer property the utility uses to generate, transmit, distribute, or supply electric power and energy “to the public or any portion thereof. . . .” *Idaho Code* § 61-328(1) and (2). The Commission previously has found Idaho Code § 61-328 does not strictly apply where, as here, the property historically has served only a single customer beyond that customer’s POD, rather than the “public or a portion thereof.” *See e.g.*, Case No. IPC-E-15-26, Order Nos. 33470 at 5, 33514 at 1 and 11; Case No. IPC-E-16-31, Order No. 33691 at 1 -4. But here, the Commission held the statutorily required hearing because the single customer—the City of Meridian—also is a public entity. Arguably, the property served the “public or a portion thereof” by serving the City, and the statutory hearing requirement applied. Though only Idaho Power and Staff had participated in the case, and no public comments had been received, the Commission held the hearing, thus satisfying the statutory mandate. No one appeared and testified.

Having reviewed the record, the Commission finds that Rule M is satisfied. The sale will not result in mixed ownership of facilities, and the City will own, operate, and maintain all facilities beyond the POD after the sale is complete, and will pay requisite engineering costs. Using *Idaho Code* § 61-328 as guidance, the Commission finds the sale is consistent with the public interest and will not increase costs and rates of supplying service. The Commission is satisfied the Company appropriately determined the assets' net book value. Also, because of the levelized payment schedule, customers underpay for the first 10 years of an asset's life but overpay the remaining period. Thus, the true up component appropriately accounts for decreasing net book value while allowing the Company to fully recover its revenue requirement over the assets' depreciable life. Further, it is appropriate to include the revenue loss component by way of the near-term rate of return impact, as well as the net tax gross-up, to account for the mismatch between the straight-line depreciation method used to determine book value, and the accelerated depreciation method used for assessing income taxes.

The Commission notes that Staff expressed concern that the asset price would have been lower if the Company had not included near-term operational impacts associated with O&M and A&G expenses. But as Staff acknowledged, the City agreed to the sales price "based upon its arms-length bargaining with Idaho Power." Staff Comments at 7. The Commission received no comment asserting otherwise.

For these reasons, the Commission finds the proposed transaction satisfies Rule M regarding the proposed asset sale, and is reasonable as it relates to the sectionalizer terms. The Commission also finds the proposed accounting treatment is reasonable and appropriate. The Commission thus finds it reasonable to grant the Application and approve the sale, as updated on January 19, 2018.

ORDER

IT IS HEREBY ORDERED that the Company's Application, as updated on January 19, 2018, is granted as set forth above.

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

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 2/28th day of February 2018.



PAUL KJELLANDER, PRESIDENT




KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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