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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** **REPORT AND RECOMMENDATIONS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Public Workshop, Notice of Scheduling, and Notice of Public Hearing issued on July 18, 2008, submits the following comments.

BACKGROUND

On May 1, 2008, Atlanta Power Company (Atlanta Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting an emergency surcharge and a general rate increase in the Company's basic tariff rates for electric service. Atlanta Power operates pursuant to Certificate of Convenience and Necessity No. 300. The Company is located in Elmore County and provides electric service to approximately 75 residential and commercial customers in Atlanta. On May 20, 2008, the Commission issued a Notice of the Company's Application.

Pursuant to separate notice and expedited scheduling, the Commission addressed the Company's emergency surcharge request. On June 27, 2008, in Order No. 30578 the Commission approved a temporary 33.6% surcharge for the Company with modifications and conditions. The general rate case portion of the Company's initial Application was significantly revised in a filing made with the Commission on August 8, 2008. The Company is now requesting an average increase in general rates of 55%. The permanent amount of the emergency surcharge and the amount of any general rate increase are to be established in this part of the Company's Case.

History

Atlanta Power Company was formed in 1982. The primary stockholders were Israel Ray and Lynn Stevenson. The Company was managed by Lynn Stevenson until his death in 2003. Following that event Israel Ray purchased Mr. Stevenson's interest from his estate. Since that time Israel Ray has managed the system. Some of the original equipment acquired by Atlanta Power when it began business was approximately 100 years old. During his tenure Mr. Ray has made a substantial amount of system improvements. Some have been planned upgrades and some have been forced upon him by equipment failure or regulators such as the Federal Energy Regulatory Commission (FERC) and the U.S. Forest Service. The 2007 failure of the turbine caused the purchase of a backup generator, which the Company had not had for a number of years, and the complete rebuild of the turbine. It is Staff's opinion that the electric system in Atlanta is in the best condition that it has been in since Atlanta Power Company was formed. These improvements come at a cost. Capital investment and expenses have increased since the Company's last general rate case in 1993. These are driving the Company's request for a surcharge increase and general rate increase.

THE COMPANY'S APPLICATION

The Company's Emergency Surcharge Rate Request

Atlanta Power, as part of its original Application, requested that the Commission declare an emergency and approve a surcharge on existing rates of 54.2% to recover extraordinary costs associated with the failure of the Company's turbine. Later, in Reply Comments, the Company amended its surcharge request to 39.15%. In Order No. 30578, issued in this Case, the Commission found that an emergency did exist and allowed the Company to implement a 33.6% surcharge. The Commission pronounced the surcharge to be temporary and subject to refund pending a thorough review and audit. That review and audit are part of the current case.

The Company's General Rate Request

The Company also requests a general rate increase to recover normal operating costs of the Company. The Company's last general rate case filing was in 1993, 15 years ago. The Company initially requested an increase of 60.62%, but subsequently revised its request to 55% in an Amended Application. The Amended Application shows a revenue requirement of $113,228. The Company proposes the following tariff changes.

The Company's Proposed General Rate Structure

Schedule 1 – Residential Service (Permanent)

The existing rates for residential service under Schedule 1 are as follows: The Customer Charge is $81.00/month. There is no additional charge for the first 500 kWh/month of usage. All usage above 500 kWh/month is billed at 5 ¢/kWh.

The Company is proposing the following rates: A Customer Charge of $112.00/month; no additional charge for the first 500 kWh of usage; all usage above 500 kWh/month would be billed at 8 ¢/kWh. This amounts to an average increase in general rates for Schedule 1 of approximately 39%.

Schedule 3 – Residential Service (Seasonal)

The existing rates for residential service for Schedule 3 are as follows. The Customer Charge is $35.00/month. All kWh are billed at 21 ¢/kWh.

The Company is proposing the following rates: A Customer Charge of $45.00/month; an energy charge of 50 ¢/kWh for all energy used. These rates constitute an average increase for Schedule 3 customers of 60%.

Schedule 2 – Commercial Service (Permanent)

The existing rates for commercial service under Schedule 2 are as follows: The Customer Charge is $144.00/month. There is no additional charge for the first 500 kWh of usage. All usage above 500 kWh/month is billed at 18 ¢/kWh.

The Company is proposing the following rates: A Customer Charge of $200.00/month, no additional charge for up to 500 kWh/month; all usage above 500 kWh/month would be billed at 32 ¢/kWh. This proposal constitutes an average increase of approximately 64%.

The Company's Proposed Rules and Regulations Modifications

The Company proposes to modify the language in its Rule 12b (Limitation of Use) to clarify that the $10 per-month charge approved by the Commission is only for temporary connections of recreational types of vehicles (campers, motor homes and trailers) connected to the service of a regular customer's electrical connection. All such piggyback connections served through another customer's meter for a period greater than 30 days annually under the Company's proposal will be treated as additional residential or commercial service. The effect of this clarification and language is to increase the charge for such a connection from $10 to $82 (820%) per month if connected to a residential service and to $165 (1,650%) if connected to a commercial service.

Atlanta Power proposes to change its Schedule 4 reconnection charges for residential customers who voluntarily or involuntarily disconnect from the system for a period of more than 30 days from $200 to $335 (approximately 4 times the monthly base rate). Similarly, the Company proposes to change the reconnection charge for commercial customers who voluntarily or involuntarily disconnect from the system for a period of more than 30 days from $200 to $660 (approximately 4 times the monthly base rate). These changes, the Company contends, are necessary to discourage customers from seasonally disconnecting from the system causing a loss of revenue to the Company and resulting in upward pressure on rates to keep the Company viable.

Atlanta also proposes to add new fees that are not currently approved by the Commission. The Company requests that the Commission approve a new $20 fee to reprocess and collect for checks returned by any bank for any reason. The Company also requests that the Commission authorize it to collect late fees of 12% per annum (1% per month) on past-due accounts.

AUDIT

The Company has proposed and Staff has accepted a 2006 test year as the basis of its general case. Because of the turbine failure in 2007, the Company and Staff agree that the most recent calendar year ended before its rate case filing is not typical of normal Company operations.

Staff examined all documentation provided by the Company in support of its surcharge and general rate case filing. This documentation included invoices, returned checks, bank statements and schedules prepared by the Company's consultant.

Recordkeeping

The Company has sought recovery in customer rates for some costs in 2006 for which no invoices were provided. However, in some instances, the Company provided canceled checks and/or bank statements (documenting debit transactions) as partial support of the costs it seeks to recover in customer rates. Canceled checks and debit transactions provide documentation that a payment occurred but not necessarily that the payment was for the Atlanta Power Company rather than a personal cost or a business cost related to other businesses owned by Atlanta Power's owner. Additionally, such documentation is not sufficiently detailed to evaluate the reasonableness of costs. The Company also provided some invoices that did not match up to any costs requested for recovery in customer rates. In some cases it was clear that these invoices were not related to the filed case.

Staff recommends that the Company establish a recordkeeping system to document its costs. Such documentation should be obtained and/or prepared contemporaneously with the underlying cost event. Further, this documentation should be maintained in such a manner that it is easily retrievable when necessary. When asked about work that was performed requiring overnight stays in Atlanta, the Company responded that,

> Israel Ray does not maintain time sheets or log books of work performed. Israel Ray travels to Atlanta to perform his duties not only as president of the Corporation but to perform a multitude of repair, rebuild, maintenance and emergency tasks to maintain the electric system. It is not possible to identify the specific purpose of each of the visits to the service area two years after the fact.

Annual Reports

On September 5, 2007 the Company submitted annual reports for 2004, 2005 and 2006. Staff recommends the Company file annual reports by the statutory deadline of April 15. Once records are maintained in an organized fashion, these reports should be less costly to prepare on an annual basis.

The Company has delayed preparing its 2007 Annual Report due to the turbine rebuild requirements and the filing of this rate case. Staff recommends the Company complete the 2007 Annual Report and file it no later than December 31, 2008. The 2008 Annual Report should be filed no later than the April 15, 2009 due date.

COLLECTION OF EXTRAORDINARY COSTS IN SURCHARGE

By way of background, Atlanta Power noted the following regarding its proposed surcharge:

- By Order No. 30417 dated August 29, 2007, in Case No. ATL-E-07-1, the Idaho Public Utilities Commission authorized the Company to defer on its accounting records, the extraordinary costs incurred in the year 2007 associated with the failure of Atlanta Power's hydroelectric turbine. That Order recognized that the Company would be filing additional applications seeking recovery of the deferred extraordinary costs.
- By Order No. 30511 dated March 3, 2008, in Case No. ATL-E-08-1, the Idaho Public Utilities Commission authorized the Company to incur debt in the amount of $110,000. The Order recognized the need for the Company to acquire cash to pay the extraordinary costs deferred pursuant to Order No. 30417.

Staff has reviewed the schedule of extraordinary costs the Company has stated was due to the turbine failure in 2007. Staff determined that some costs were not necessary to operate the system while the turbine was being repaired nor associated with the actual repair and installation of the turbine. For example, approximately $3,800 in consulting fees was related to preparation of the Company's annual reports for the years 2004, 2005 and 2006. There were also $2,800 in costs associated with maintenance and repair of a backup generator that was subsequently replaced by the Company. These maintenance costs did not result in a used and useful generator. There were also some minor costs Staff considered normal operating costs such as $200 for computer software and memory. Finally, there was approximately $400 for improving a generator building but this building is not owned by the Company nor is the backup generator currently in that building. The costs related to the turbine failure, as adjusted by Staff, total $107,831.

According to its workpapers, the $110,000 loaned Atlanta Power was essentially to pay the owner for wages the Company deferred and to pay another company of the owner for cash advances and costs paid by that company to or on behalf of Atlanta Power for costs associated with the turbine failure. In its request for surcharge, the Company has requested interest on those deferred wages and other payments. The Company calculated interest due the owner for deferred wages and interest for another company of the owner based on the dates the wages were deferred and the dates checks were written by the owner's other company. Staff has calculated interest due the owner and owner's other company based upon the dates the extraordinary costs were paid because Staff has removed certain costs as not associated with the turbine failure as discussed above. Interest has been calculated through March 31, 2008, because the loans were finalized in March and April 2008.

Staff has determined costs associated with the turbine failure, including interest, as $114,164. Staff proposes a surcharge to recover these costs as follows:

Table No. 1

Notes/Loans	Company	Staff
Promissory Note - $100,000	$1,874 per month	$1,765 per month
Promissory Note - $10,000	$177 per month	$177 per month
Owners' Funds (Interest)	$322 per month	$73 per month
Total Monthly Recovery	$2,383 monthly	$2,015 monthly
Total Annual Recovery	Approx. $28,596 annually	Approx. $24,180 annually

These costs will not be included in general base rates of the customers. Instead it will be a separate line item charge on each customer's bill.

Staff's proposed recovery for the $100,000 loan uses a 12% interest rate. The Company's proposed recovery uses the 14% stated interest rate on the Note. In comments dated June 5, 2008, Staff recommended that Atlanta Power's return on equity rate allowed in the general base rate portion of this case should be the maximum rate allowed as a debt cost for ratemaking purposes. In this case it could be argued that the debt rate should be no greater than the reduced return on equity of 11% discussed later in this report. However, Staff recommends using the 12% recommended return on equity before the reduction. The Atlanta Power loan is similar in many ways, except term, to a recently executed Eagle Water loan. As a comparison, a $110,000 loan was signed December 2007 at Index plus 2% or 9.5%. Even after taking into account the term extension, this comparable loan demonstrates that a loan at 14% is excessive.

In December of 2007, the bank informed Staff that it was willing to explore similar options on a longer term with Atlanta Power. Utilizing the return on equity as the maximum rate is a reasonable compromise.

The Company seeks to recover $18,808 in owner's funds at 12% interest or $322 per month. These funds include three months of deferred wages in January through March 2008 ($5,400). Staff has excluded these costs from its analysis. Management deferred wages in 2007 to provide funding for the Company to meet its extraordinary costs. Staff has included interest for that time period in its surcharge calculations. The wage deferrals in 2007 have been repaid through the loans identified above. Staff treats the deferral of wages in 2008 as an owner's contribution which can be repaid through Company operations when funding is available. Staff recommends a follow up review of the status of these loans be performed in April 2009 coincident with the Company's filing of its Annual Report.

Staff provides for recovery of interest due the owner that was not provided through the two loans authorized in Case No. ATL-E-08-1. This was calculated as follows:

Table No. 2

Extraordinary Costs (As Adjusted by Staff)	$107,831
Interest to Owner	6,333
Total Extraordinary Costs and Interest	$114,164
Less: Amounts received through Notes	$110,000
Interest Due the Owner	$4,164

GENERAL RATE CASE REVENUE REQUIREMENT

Staff proposes a general rate case revenue requirement of $76,770 (Attachment D) or a 5.09% increase in revenues to be recovered from customers in base rates. This recovery is for normal operating costs of the Company and does not include the extraordinary items recovered through the surcharge rate. The general rate case revenue requirement is calculated using $118,011 for rate base, 11.10% for an overall rate of return and a net operating income of $12,759 for the year 2006 as adjusted by Staff. This increase is based upon the documentation provided by the Company as of September 16, 2008. Staff understands that upon receipt of this report the Company may provide additional information to Staff. Staff will review that information for possible inclusion in costs ultimately authorized by the Commission.

Rate Base

Staff proposes a rate base of $118,011 (Attachment A). Staff has proposed adjustments in the following areas.

Electric Plant in Service

Staff has reduced plant in service by approximately $11,000 to remove costs that should not have been capitalized, were not supported by sufficient original cost documentation, and did not improve buildings owned by the Company.

Staff has reduced plant in service to remove costs that were inadvertently included as capital items. According to Company management, approximately $5,000 included in its case as fencing costs was actually monthly labor for maintenance of the system. These costs were already included by Staff, to the extent they were documented, within the case under Operating Expenses. This was partially offset by an increase in plant in service for approximately $1,000 that was not included within the Company's original case.

Staff reduced plant in service by approximately $3,000 to remove costs that were for maintenance and repair of a backup generator that was subsequently replaced by the Company. The Company's purchase of a backup generator in 2007 is used and useful so is included as a pro forma increase to rate base within Staff's case.

Staff has reduced plant in service by approximately $3,000 to remove costs not sufficiently supported by original cost documentation. Staff attempted to match the bundle of documents provided by the Company to costs included within its filing. While many costs were supported by invoices and some by returned checks, others were supported by neither. Generally labor costs were included in Staff's pro forma numbers if a returned check was available with the memo line on the check describing the services provided. It is Staff's understanding that in those circumstances the Company does not receive an invoice for labor provided.

Staff has reduced plant in service by approximately $500 for cement identified by the Company as for the generator building. The generator is not currently in a building. It is Company management's plan to move it inside a building on a lot not owned by the Company. Instead, the lot is owned by another company of Atlanta Power's owner. The cement has improved the building on that lot. As discussed later in the expense section of this report, Staff has included an amount to reflect usage of that lot and buildings.

Accumulated Depreciation and Contributions in Aid of Construction

Accumulated Depreciation and Contributions in Aid of Construction (CIAC) have been revised to reflect Staff's revisions to plant in service. The CIAC has been recorded to reflect expenditures covered by the loans (identified as contributions in the Company's case) and reflected in the surcharge. This treatment assures that expenditures recovered by the surcharge are not included in base rates. Staff has also revised the CIAC calculation to reflect that the loan proceeds, the subject of Case No. ATL-E-08-1, would first be applied to assets (items capitalized), then deferred expenses and finally interest. Staff utilizes this order since it could also be argued that the deferred expenses and interest are equity infusions from the owner. As such they would be repaid last. The CIAC is amortized over the life of the asset to ensure, on a year-to-year basis, that no expense is included in operations for items financed by contributions or the surcharge.

Staff has also increased Accumulated Depreciation to reflect $1,700 salvage value received by the Company in 2006. According to the owner, this salvage was received as a result of the upgrades to the system and was primarily the sale of copper.

Inventory

The Company has included in its filing $7,000 for inventory of materials and supplies. The Company has stated "current management of the Company has no records or knowledge of the purchases recorded to this account." Further, the Company states that "as the inventory is used up, replacement materials and supplies are either capitalized or expensed as they are purchased."

Due to the lack of information regarding the $7,000 inventory and because the Company is expensing or capitalizing replacement items as they are purchased, Staff has reduced rate base by $7,000. The Commission has previously accepted removal of the $7,000 inventory from the Company's rate base due to lack of supporting documentation in Case No. ATL-E-93-1, Order No. 24925.

Cash Working Capital

The Company has requested working capital in its filing. Working capital provides funds to pay expenses until customer revenues are received. Traditionally the Commission allows a

45-day working capital or 1/8th of annual operating expenses for small companies. Staff has revised the working capital provision in rate base to reflect 1/8th of Staff's pro forma operating expenses for the Company.

Return on Investment

Utilities are entitled to earn a return on rate base investments. This return is the weighted balance of the debt held by the Company and the return on equity authorized by the Commission. The Company has proposed an overall 12.20% return on investment (see Company Exhibit No. 3) including 12% as its return on equity. Staff's proposed overall return on investment for this case is 11.10% (Attachment C).

The Commission has consistently allowed small water utilities to earn a rate of return on equity of 12%. Case No. DIA-W-07-1, Order No. 30455; Case No. MNV-W-06-1, Order No. 30420. Staff views Atlanta Power's risks similar to those of a small water utility and as such would normally recommend the 12% return on equity as proposed by the Company. A reasonable return on equity range is 10% - 12%. Atlanta Power would typically be at the upper end of this range. However, Staff proposes an 11% return on equity to incentivize the Company to make needed financial and organizational improvements (see Summary of Staff Recommendations section of this report). Once the Company has made those improvements, it can petition the Commission for an increase in its return on equity to 12%.

The Company has included debt of 14% in its return on investment calculation for a 2004 loan approved in Case No. ATL-E-04-1. In that case, Staff proposed that the 14% interest rate should not be used to establish the Company's revenue requirement or customer rates. Instead, Staff proposed that the Company's return on equity in future rate cases should be the maximum rate allowed as debt costs for ratemaking purposes. In that case, the Commission ordered that the 14% debt rate for the loan under consideration not be used to establish the Company's revenue requirement or customer rates. Order No. 29636. In this case it could be argued that the debt rate should be no greater than the reduced return on equity or 11%. However, Staff recommends using the 12% recommended return on equity before the reduction. This also minimizes the difference between the debt rates, to use 12% for this debt in the weighted cost of capital.

Gross-up Factor

Staff accepts the Company's gross-up factor that factors in the tax associated with a revenue increase. Staff notes, however, that the Company does have approximately $90,000 of net operating loss carryforward (primarily from 1991 and 1992) that can be used to offset the taxes resulting from this rate increase. This will provide a cash flow benefit for the Company. Because rates are forward-looking and not retroactive, the loss carryforward created before the last general rate increase cannot be incorporated into these rates.

Net Operating Income

Staff has proposed a Net Operating Income for the Company of $12,759 (Attachment B). The Company filed a 2006 Pro Forma Operating Loss of $16,463 in its general rate case. Staff has proposed adjustments to both revenues and expenses.

Revenue

Staff has increased test year revenues by $4,662. This adjustment reflects the known and measurable change of growth in the number of customers that occurred between 2006 and 2007.

Expenses

Labor

Staff has reduced Power Generation Labor by $250. Staff was able to confirm $9,740 with invoices for monthly maintenance and extra duties. The amount for maintenance is $750 per month for an annual amount of $9,000. According to the Company, this represents approximately 30 hours contract labor per month or $25/hour. Extraordinary repairs and maintenance is billed to the Company at $25 per hour. When the Company's primary employee is not available, his substitute is paid $10 per day according to the Company. While it can be argued that the substitute pay could reduce the monthly amount paid to the primary maintenance person, it is reasonable to ensure backup personnel when needed. This backup person is paid through credits on his electric bill.

The Company has also included $350 per month for sending out customer invoices, receiving customer payments, maintaining an office in Atlanta and providing a telephone for customer contact. According to the Company, this represents approximately 20 hours per month or $17.50 per hour. Because that hourly rate is greater than expected for maintaining customer invoices and payments, Staff considers the office as part of that cost and expects a dedicated telephone line can be provided by the Company for that same cost and the value of the electricity provided by the Company for the contract employees to maintain Atlanta Power's office in their home.

Staff has reduced General Office Salaries by $7,200. The Company, in its filing, requests an increase in monthly pay for management from $1,800 to $2,400 per month (or 33%). According to the Company, management spends approximately 300 to 700 hours per year performing repair and maintenance to the system, line rebuilds, general clean-up of facilities, purchasing and transporting materials and supplies, paying bills, responding to emergency calls and customer complaints and concerns. In 2006, 2007 and 2008 normal duties were estimated at 500 hours per year (approximately 3 months using a 40-hour work week). However, no time sheets or logs are maintained to document this estimate. The hourly rate at 500 hours per year for management included in the Company's filing is approximately $58 per hour ($2,400 per month or $28,800 annually).

Staff recommends that management salaries be no more than $1,800 per month. This rate of pay, using management's estimation of 500 hours worked in a normal year, translates to approximately $43 per hour. Because management's duties include some items that can be performed by less skilled labor, it could be argued that management's monthly salary be $1,600 (approximately $38 per hour). While management has identified additional extraordinary work performed in both 2006 and 2007, general customer rates should only include a normalized cost for management's salaries.

Staff suggests that the Company maintain a log detailing management (and other labor) trips to Atlanta and the work performed. This log would also serve as documentation for the Internal Revenue Service.

Materials and Supplies, Fuel, and Travel/Lodging Expenses

Staff has reduced materials and supplies expense by $2,138. These are costs that were unsupported by invoices. In two instances, debit receipts were provided but no purchase detail was observed for the approximately $200 included within the case.

Staff has also reduced fuel expenses by $1,485. These are costs that were unsupported by invoices. In some instances, invoices were provided but were unreadable.

Staff has reduced travel and lodging expenses by $1,319. These are costs that were unsupported by invoices and/or were not supported by detailed invoices. Staff allowed 60% of lodging costs when the Company documented a payment for lodging although there were no detail receipts that would identify the room rate, meals purchased and other underlying details of the transaction. Without specific details of the transaction, Staff is unable to determine whether all costs should be included in the case.

Even if detailed itemized receipts were provided, Staff would still be concerned about the magnitude of materials and supplies, fuel, and travel/ lodging expenses for the year. The Company has included almost $10,000 in its case for these three expense categories. In addition, management has identified extraordinary hours/tasks in 2006 that could overstate the amount of these expenses necessary for a normal test year. Further, the establishment related to the lodging costs is no longer open to the public. As a result, management is staying in a recreational vehicle on a lot owned by one of his other companies (see Rental Expenses) potentially reducing the lodging costs further on an ongoing basis.

Rental Expenses

The Company has included $4,150 for Atlanta Power to rent a lot to store equipment. Another company of Atlanta Power's owner owns this lot. Because of this relationship, Staff recommends that the rental costs for the lot usage included in the case be treated similarly to that for property owned by the Company. That is, the owner should be provided an overall return on that property. In this case, Staff recommends an overall return of 11.10% and has applied that return to the assessed value of the property estimated to be used (3/4 acre, buildings, and cement for building) for Atlanta Power's equipment. Staff's adjustment reduces the Company's expenses by $3,077 to $1,073.

Insurance

Staff has reduced insurance expenses by $775 to $1,503 per year to match the most recent premiums documented by the Company. This insurance includes both liability and auto policies.

Property Taxes

Staff has reduced property taxes by $2,261 to $1,576 per year to reflect the most recent assessments provided by the Company. It appears that the amount included within the Company's case includes amounts for past due taxes.

Professional Fees

According to Company management, the amount included within the case ($4,319) was mostly for costs incurred before 2006. As a result, Staff has removed that amount from the Company's case. However, Staff does recognize that the Company should incur costs to prepare its annual reports and taxes. According to Staff's review of the Company's consultant expenses, approximately $3,800 was incurred to prepare accounting data and annual reports for 2004, 2005, and 2006. Staff doesn't recommend including simply one third of this cost (approx. $1,300) because the Company's recordkeeping and stale data undoubtedly increased the time required to prepare these reports. Staff has included $850 annually for preparation of annual reports and taxes.

Depreciation Expense (net of Contributions in Aid of Construction Amortization)

Staff has revised depreciation expense and the amortization of Contributions in Aid of Construction to reflect the changes in Plant in Service. For further information, see the Accumulated Depreciation and Contributions in Aid of Construction section of this report.

Rate Case Expenses

Staff has reviewed rate case invoices submitted by the Company for this case. Those invoices included some costs for the loan application, taxes, and deferred accounting issues. Based upon Staff's review, $12,854 (Attachment D) has been identified as surcharge and general rate case expenses. Because these costs are associated with two cases, the surcharge and the general rate case, Staff has amortized these costs over five years. The surcharge is proposed for seven years and a typical rate case amortization is three years. A five-year amortization is a reasonable compromise between these two positions. Interest on past due accounts has been excluded from this amount (see late fees section of this report). In Staff's opinion, it is possible that these rate case costs are higher than normal due to the substandard recordkeeping of the Company. While Staff has recommended amortizing these costs over five years, a seven-year amortization could also be justified given that the surcharge (7-year rate) is the largest increase proposed in Staff's report. The Company has requested $13,500 for rate case expenses in its amended filing of August 8, 2008.

Late fees/interest on accounts

Consultant fees include interest on past due amounts. These essentially are late fees that should be borne by management and not the ratepayer. Staff has included an amount for working capital within the Company's revenue requirement. Working capital provides the funds to pay expenses until revenues from customers are received. This should be sufficient to ensure bills are paid in a timely manner.

REVENUE ALLOCATION AND RATE DESIGN

The Surcharge Request

In the part of this case that decided the temporary surcharge, the Staff recommended a uniform percentage rate increase as the method of recovering the surcharge from customers. Staff believes that a uniform percentage increase remains the appropriate rate methodology to recover the surcharge amount. Schedule 5 of the Company's tariff was developed to implement the surcharge. In this filing the Staff proposes that the total amount to be recovered by surcharge be changed from $172,242.52 to $168,285. This change in the surcharge amount and the proposed change in base rates require that the surcharge percentage also be changed. Staff recommends that the surcharge amount contained in Schedule 5 be adjusted to reflect an annual total collection of $24,180 and that the surcharge percentage be updated accordingly to 31.5% of the new base rates proposed by Staff. (Attachment E).

The General Rate Case

Electric utility general rate cases traditionally allocate costs to customer classes using a class cost of service study as a guide. However, coincident peak demand information is required to do such a study and that information is not available. What is known is that there are no transmission costs and that generation costs have a large fixed cost component and a relatively small variable cost component because system generation is provided by hydropower. This appears to be reflected in current rates because much of the annual revenue requirement is collected through customer charges. A uniform percentage increase maintains the rate relationships among the customer classes and requires no customer class pay more than the average increase. This is important when the increases are large and there is no cost of service justification to do otherwise. Attachment F to this report shows three rate design alternatives for general rates. Column (e) shows current rates and revenues. Column (f) shows the rates, revenues and the increase associated with an across the board uniform percentage rate increase as proposed by Staff. Column (g) shows rates, revenues and the percent increase based on a uniform percentage increase to all Customer Charges and equal energy rates for Residential and Commercial Customers. Column (h) shows rates, revenues and the percent increase similar to column (g) except Permanent Commercial customers receive no energy rate increase. Permanent Residential customer energy rates are increased to make up the difference. All three sets of rates, columns (e), (f) and (g), are designed to recover the Staff proposed 5.09% general rate increase.

Combined General and Surcharge Rates

Under the Staff's proposal the combined Surcharge and General rate increase above existing base rates is approximately 38%.

Reconnection Charge

The Staff supports the Company's recommendation that the Reconnection Charge for customers disconnected from the system for periods of time longer than 30 days be approximately four times the monthly customer charge. Staff proposes a residential reconnection charge of $340.00 and a commercial customer reconnection charge of $600.00.

CUSTOMER RELATIONS

Customer Notice and Press Release

The Customer Notice was sent as an insert in the May 2008 billing. The Notice met the requirements of Rule 102, Utility Customer Information Rules, IDAPA 31.21.02.000 et seq. The press release was identical to the Customer Notice and was sent to the Idaho Statesman, the Idaho Business Review, the Mountain Home News and the Idaho World newspapers the same day the Application was filed at the Commission, August 8, 2008.

Customer Comments

As of September 12, 2008, sixteen customers filed comments on the case. The Commission also received a petition with 29 names; six of those who signed the petition also filed comments. Almost all objected to the requested rate increase. Four of the commentors said they either would consider disconnecting or would disconnect if the requested rates were approved.

Service Outages

Twenty-two customers attended the workshop in Atlanta on August 23, 2008. A primary issue at the workshop was the difficulty in reaching the Company to get information about outages. In particular, they wanted to know the cause of the outage and how long it would last. In addition to their concerns about unplanned outages, customers said there was little or no prior notice for planned outages involving system maintenance and repair. Several customers questioned whether the system was maintained adequately in light of the turbine failure in 2007.

There have been twenty-two complaints to the Commission since 2004 for Atlanta Power Company, a significant number considering the small number of customers. The majority of the complaints related to outages. However, since the repair of the turbine at the dam was completed, the number of complaints has dropped. As of September 17, 2008, there had been no outage complaints filed with the Commission for this year.

A dedicated telephone line with an answering machine or voicemail with recorded message capability would be very helpful during extended or planned outages. It would allow Atlanta Power employees to avoid having to answer and respond to numerous calls while they are working on restoring service. A recorded message could provide all the available information about the outage and be updated when more information becomes available. Outage messages would also allow customers or other interested persons to get information about outages when they are not in Atlanta.

Billing Documentation and Customer Notices

The Utility Customer Relation Rules (UCRR), IDAPA 31.21.000 et sec., includes the requirements for billing documentation. The Company bills customers on a monthly basis. The bill sample submitted by the Company indicates the service period and billing date but does not indicate a due date as required by Rule No. 202.01, UCRR. Staff recommends the Company update its billing statements to include the specific due date so that it is clear to customers when a bill payment is due. Staff is willing to work with the Company to revise the billing statement so it meets the rule requirements.

Rule 103 of the Utility Customer Information Rules (UCIR), IDAPA 31.21.02.000 et seq., requires the billing statement to include a comparison of the current month's usage with the same period of time the prior year. The billing statement sample does not include the required information. Staff recommends the Company update its statement to include the comparison. Alternatively the Company can ask for an exemption from this requirement if compliance poses a hardship for the Company.

The Company rarely turns off customers for non-payment but when it is necessary, it contacts the customer by telephone and a letter before service is disconnected. The Company did not provide a sample of the letter it mails to customers. The Company agreed to work with Staff to establish a protocol to be used before disconnecting a customer and the wording and format for the Initial and Final Notices required by Rule Nos. 304 and 305 of the UCRR.

Rule 701 of the UCRR requires a utility to provide its customers on an annual basis a copy of its rules summary. Staff is willing to provide a sample copy of the rules summary to the

Company in electronic format. The Company must send a copy with its updated billing statements and on an annual basis thereafter to comply with Commission rules.

Staff also discussed the Third-Party Notification, the Medical Certificate and the Winter Payment Plan "Moratorium" with the Company. Staff and the Company will work together on the protocol, and any necessary forms, consistent with Commission Rule Nos. 306, 307 and 308, UCRR.

Company Tariff and Non-Recurring Charges

The Company requested approval of two non-recurring charges, a late payment fee and a returned check charge, to be included on Schedule 4, Other Miscellaneous Charges. The Company requested a late payment fee of 12 percent per annum or 1% monthly on the unpaid balance owing at the time of the next monthly billing. Staff recommends the late payment fee be approved. The Company asked for a returned check charge of $20. Staff recommends the charge be approved.

In its review of Atlanta Power's current tariff, Staff found other charges included in the Rules and Regulation portion of the tariff that should be included on Schedule 4 which lists the Company's non-recurring charges:

- $10.00 monthly charge for additional temporary connections to a meter.
- $25 meter test fee

These charges were previously approved by the Commission, but Staff recommends they be moved to Schedule 4. The Company has proposed adding language to its tariff to clarify the conditions under which the temporary connection charge applies. As discussed earlier in this report, Staff supports this clarification.

Since the majority of the tariff was approved in 1989, there have been numerous changes in the Commission's rules and regulations. Staff recommends that the Company and Staff work together to revise and update its tariff to ensure compliance with the Commission's requirements.

SUMMARY OF STAFF RECOMMENDATIONS

Staff recommends:

- The emergency surcharge rate be made final; that the amount that is to be recovered by the surcharge rate be $24,184 annually and that the surcharge percentage be 31.5% of the new base rates proposed by Staff in this case.

- The Commission approve a general rate increase of 5.09% designed to recover a revenue requirement of $76,770. Staff further recommends that the increase be a uniform percentage increase applied to all Schedule 1, 2 and 3 rates.
- The total revenue requirement for the Company be established at $76,770.
- The Company's rate base be set at $118,011.
- The Company be authorized to earn 11% as a reasonable rate of return on rate base. Once the Company has made financial accounting and organizational improvements, it can petition the Commission for an increase in its return on equity to 12%.
- The Company establish a recordkeeping system to document its costs. Such documentation should be obtained and/or prepared contemporaneously with the underlying cost event. Further, this documentation should be maintained in such a manner that it is easily retrievable when necessary.
- A follow up review of the status of the loans discussed in this report be performed in April 2009 coincident with the Company's filing of its Annual Report.
- The Company provide a means to inform customers of outages, e.g., a dedicated telephone line with an answering machine or voicemail with recorded message capability.
- The Company update all billing documentation to include the due date and usage comparison to comply with Commission Rules.
- The Company work with Staff to develop a notification process as well as the required notices regarding disconnection of service.
- The Company work with Staff on a Rules Summary to be provided to customers.
- The Company work with Staff to develop the protocol as well as necessary forms for Third-Party Notification, the Medical Certification and the Winter Payment Plan.
- The Commission approve the Return Check Charge of $20 and a late payment charge of 12 percent per annum or 1% monthly on the unpaid balance owing at the time of the next monthly billing.
- The Company revise Rate Schedule No. 4 – Other Miscellaneous Charges, to include its temporary connection charge and Meter Test Fee.

Respectfully submitted this 18th day of September 2008.

Scott Woodbury
Deputy Attorney General

Technical Staff: Keith Hessing
Patricia Harms
Nancy Hylton

i:/umisc/comments/atle08.2swkhphnh staff report and recommendations gen rate case

Atlanta Power Company
Rate Base Proposed by Staff

Staff Adjustments:

	Company Pro Forma	Remove Select Adds per WPs	Reflect Salvage Received	Adj. Depr. & Conts. for Revised PIS	Remove Inventory	Adj. Wkg. Cap.	Staff Pro Forma
1 Electric Plant in Service	394,337	(10,040)					384,297
2 Land	8,145						8,145
3 FERC License	55,153						55,153
4 Vehicles	25,547						25,547
5 Tools and Shop Equipment	4,119	(543)					3,576
6 Office Equipment	1,187						1,187
7 Total Plant in Service (PIS)	488,487	(10,583)	-	-	-	-	477,904
8 Accumulated Depreciation	(275,858)		(1,713)	3,230			(274,341)
9 Contributions in Aid of Construction	(88,315)			(7,128)			(95,443)
10 Amortization of Contributions	4,577			(251)			4,326
11 Net Plant and Equipment	128,891	(10,583)	(1,713)	(4,149)	-	-	112,446
12 Materials and Supplies Inventory	7,000				(7,000)		-
13 Cash Working Capital	8,029					(2,464)	5,565
14 Total Rate Base	143,921	(10,583)	(1,713)	(4,149)	(7,000)	(2,464)	118,011

Attachment A
Case No. ATL-E-08-2
Report and Recommendations
P. Harms, Staff
09/18/08

Atlanta Power Company
Net Operating Income Proposed by Staff

			Staff's Adjustments:				
		Company Pro Forma 2006	Pro Forma Revenue	Reduce Mgt. Fee to $1800	Reduce Labor to Invoice	Remove Unsupp. Costs	Reduce Rental to Rate of Rtn.
1	Revenues	$ 68,389	$ 4,662				
	Operating Expenses:						
2	Power Generation - Labor	9,990			(250)		
3	Power Generation - Materials & Supplies	4,462				(2,138)	
4	General Officers Salaries	28,800		(7,200)			
5	General Office Labor	4,200					
6	General Office Supplies & Expense	485					
7	Rental Expenses	4,150					(3,077)
8	Fuel Expenses	3,111				(1,485)	
9	Licenses, dues and fees	211					
10	Insurance	2,278					
11	Professional Fees	4,319					
12	Bank Charges	70					
13	Travel & Lodging	2,158				(1,319)	
14	Total Operating Expenses	$ 64,234	-	(7,200)	(250)	(4,942)	(3,077)
15	Depreciation Expense (net Cont. in Aid of Const. Amort)	16,782					
16	Property Taxes	3,836					
17	Total Expenses	$ 84,852	-	(7,200)	(250)	(4,942)	(3,077)
18	Net Operating Income	$ (16,463)	$ 4,662	$ 7,200	$ 250	$ 4,942	$ 3,077

Atlanta Power Company
Net Operating Income Proposed by Staff

		Staff's Adjustments (continued): Match Ins. Exp. to Premiums	Match Taxes to Assess.	Remove Prior Year Accounting	Impute Est. of Annual Rpt.	Adj. Depr. & Amort. for Revised PIS	Staff Pro Forma
1	Revenues						$ 73,051
	Operating Expenses:						
2	Power Generation - Labor						9,740
3	Power Generation - Materials & Supplies						2,324
4	General Officers Salaries						21,600
5	General Office Labor						4,200
6	General Office Supplies & Expense						485
7	Rental Expenses						1,073
8	Fuel Expenses						1,626
9	Licenses, dues and fees						211
10	Insurance	(775)					1,503
11	Professional Fees			(4,319)	850		850
12	Bank Charges						70
13	Travel & Lodging						839
14	Total Operating Expenses	(775)	-	(4,319)	850	-	$ 44,521
15	Depreciation Expense (net Cont. in Aid of Const. Amort)					(2,586)	14,196
16	Property Taxes		(2,261)				1,576
17	Total Expenses	(775)	(2,261)	(4,319)	850	(2,586)	$ 60,292
18	Net Operating Income	$ 775	$ 2,261	$ 4,319	$ (850)	$ 2,586	$ 12,759

Atlanta Power Company
Weighted Cost of Capital Proposed by Staff
at 12/31/2006

	(A) Per PUC 2006 Report	(B) Corrected Loans	(C) Total at 12/31/06	(D) Weight	(E) Rate	(F) Wtd. Cost
1 Common Stock	144,171					
2 Retained Earnings	(91,704)					
3 Additional Paid-In Capital	22,323					
4 Net Owners Equity	74,790	(7,047)	67,743	42.12%	11%	4.63%
Notes Payable - Others						
5 Alberdi 2004 loan	57,000	(2,572)	54,428	33.84%	12%	4.06%
6 Zimmerman loan	14,598	4,358	18,956	11.78%	10%	1.18%
7 Israel Ray loans	15,189	4,534	19,723	12.26%	10%	1.23%
8 Total Capital			160,850	100.00%		11.10%

Attachment C
Case No. ATL-E-08-2
Report and Recommendations
P. Harms, Staff
09/18/08

Atlanta Power Company
Pro Forma Revenue Requirement
Proposed by Staff

1	Rate Base	$ 118,011	
2	Rate of Return	11.10%	
3	Net Operating Income Required	$ 13,097	
4	Net Operating Income Realized	12,759	
5	Net Operating Income Deficiency	$ 338	
6	Deficiency not Subject to Tax Gross-up Factor		-
7	Deficiency Subject to Tax Gross-up Factor	$ 338	
8	Gross-up Factor	1.278496	
9	Grossed-up Deficiency		432
10	Total Revenue Deficiency		$ 432
11	Rate Case Expense Amortization		
12	Total Expense	$ 12,854	
13	5-Year Amortization	2,571	
14	Tax Gross-up Factor	1.278496	
15	Gross Revenue Required		3,287
16	Total Gross Revenue Deficiency		$ 3,719
17	Test Year Revenues as Adjusted by Staff		73,051
18	Total Gross Revenue Requirement		76,770
19	Percent Increase		5.09%

Gross-up Factor Calculation

20	Gross Income	100.00%
21	PUC Fees	0.25%
22	Bad Debts	0.00%
23	State Taxable	99.75%
24	State Tax @ 8%	7.98%
25	Federal Taxable	92.02%
26	Federal Tax @ 15%Rate	13.80%
27	Net After Tax	78.22%
28	Net to Gross Multiplier	1.278496

Attachment D
Case No. ATL-E-08-2
Report and Recommendations
P. Harms, Staff
09/18/08

Atlanta Power Company
Summary of Revenue
Staff proposal for Final Surcharge
2006 Test Year Adjusted

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Line No.	Tariff Description	Rate Schedule	2006 No. fo Bills Adjusted	2006 Sales Adjusted (kWh)	Proposed Base Revenue ($)	Revenue Adjustments ($)	Proposed Revenue ($)	Percent Change (%)
1	Permanent Residential	1	250	96,680	$21,797	$6,866	$28,663	31.5%
2	Permanent Commercial	2	59	107,876	$24,707	$7,783	$32,490	31.5%
3	Seasonal Residential	3	590	38,765	$30,267	$9,534	$39,801	31.5%
4	Seasonal Commercial	3	0	0	$0	$0	$0	0.0%
5	**Total Retail Sales**		899	243,321	$76,771	$24,183	$100,954	31.5%

The kWh adjustment is 2006 kWh/customer applied to 2007 customers.

ATLANTA POWER COMPANY
Case No. ATL-E-08-02
General Rate Case

Description			Units	Current Rates	Uniform Percentage Increase	Same Residential and Commercial Energy Rates	Keep 18¢ Commercial Energy Balance on Permanent Res. Energy
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Residential (Permanent)	S1	Customer Charge	($)	81.00	85.12	85.12	85.12
		Energy Charge	($/kWh)	0.050	0.053	0.175	0.131
		kWh Allowance	(kWh)	500	500	500	500
		Revenue	($)	20,738	21,793	22,986	22,558
		Increase over Current Rates	(%)		5.09%	10.84%	8.78%
Residential (Seasonal)	S3	Customer Charge	($)	35.00	36.78	36.78	36.78
		Energy Charge	($/kWh)	0.210	0.221	0.221	0.221
		kWh Allowance	(kWh)	0	0	0	0
		Revenue	($)	28,791	30,256	30,256	30,256
		Increase over Current Rates	(%)		5.09%	5.09%	5.09%
Commercial (Permanent)	S2	Customer Charge	($)	144.00	151.33	151.33	151.33
		Energy Charge	($/kWh)	0.180	0.189	0.175	0.180
		kWh Allowance	(kWh)	500	500	500	500
		Revenue	($)	23,523	24,721	23,528	23,956
		Increase over Current Rates	(%)		5.09%	0.02%	1.84%
Commercial (Seasonal)	S3	Customer Charge	($)	65.00	68.31	68.31	68.31
		Energy Charge	($/kWh)	0.210	0.221	0.221	0.221
		kWh Allowance	(kWh)	0	0	0	0
		Revenue	($)	0	0	0	0
		Increase over Current Rates	(%)		0.00%	0.00%	0.00%
		Total Revenue	($)	73,051	76,770	76,770	76,770
		Overall Increase	($)		3,719	3,718	3,719
		Overall Increase	(%)		5.09%	5.09%	5.09%

Attachment F
Case No. ATL-E-08-2
Report and Recommendations
K. Hessing, Staff
09/18/08

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 18TH DAY OF SEPTEMBER 2008, SERVED THE FOREGOING **REPORT AND RECOMMENDATIONS OF THE COMMISSION STAFF,** IN CASE NO. ATL-E-08-2, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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Glenda D. Koch
SECRETARY