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JOHN R. HAMMOND, JR.
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
IDAHO BAR NO. 5470

Street Address for Express Mail:
11331 W CHINDEN BLVD, BLDG 8, SUITE 201-A
BOISE, ID 83714

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ORDER APPROVING THE TRANSFER AND SALE OF CERTAIN ASSETS TO THE CITY OF NAMPA, IDAHO.	)))))))	**CASE NO. IPC-E-20-10** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission submits the following comments regarding the above referenced case.

BACKGROUND

On March 3, 2020, Idaho Power Company (the "Company") applied for Commission approval of a proposed sale and transfer of assets to the City of Nampa, Idaho ("City") under Company Rule M,[1] and *Idaho Code* §§ 61-328 and 61-524. Rule M governs the sale of Company-owned assets or facilities that are 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's side, rather than the utility's side, of the POD. *See* Order No. 33470 at 1.

[1] The Company's Rule M Facilities Charge Service can be found on the Commission's website at: https://puc.idaho.gov/Fileroom/PublicFiles/ELEC/IPC/General/0tariff/Idaho%20Power%20Company.pdf.

The Company has agreed to sell the facilities ("Assets") to the City, subject to Commission approval. The Company asks the Commission to process the case by modified procedure.

The Company uses the Assets to provide electric service to the City's wastewater treatment plant in Canyon County, Idaho under Company Schedule 19, Large Power Service. *Application* at 1-2.

The Company and City agree the City will purchase the Assets and "obtain title to and assume ownership, operation, maintenance, and all liabilities associated with the Assets." *Id.*

The Company states the sale price for the Assets is $821,253 and was set through the Company's Rule M, Section 3. *Id.* at 5-6. The Company asserts the Rule M methodology ensures the transaction will not negatively impact the Company's other customers. *Id*. at 6.

STAFF ANALYSIS

Staff reviewed the Application and believes it complies with the requirements of Rule M. Staff also reviewed the methodology for calculating the sales price and the calculation of the relocation facilities or "Shifting Facilities" and the removal of the sectionlizer and believes that they are appropriate and protect other customers of the Company under *Idaho Code* § 61-328. Table No. 1 below provides a cost breakdown of the total sales price and cost to the City. By signing the Agreement, the Company and City have agreed to the sales price and other terms. Staff thus recommends the Commission approve the Application.

Table No. 1: Calculation of Total Sales Price:

Asset Sale Agreement	$ 795,066
Shifting Facilities – POD Relocation	$ 9,321
Removal of Sectionalizer – Retirement	$ 16,866
Total Sales Price	**$ 821,253**

Asset Sale Agreement

The Commission has authority to approve or reject the proposed Agreement under Idaho Code § 61-328. All sales of facilities must be approved by the Commission under Section 3 of Idaho Power's Rule M, the tariff that governs the sale of Company-owned facilities beyond the POD. Section 3 of Idaho Power's Rule M requires:

1. Compliance with *Idaho Code* § 61-328;

2. No mixed ownership of facilities. A customer purchasing Company-owned facilities installed beyond the POD must purchase all facilities listed on the Distribution Facilities Investment Report for that location;
3. The customer to provide the operation and maintenance of all facilities installed beyond the POD after the sale is complete; and
4. The customer to prepay engineering costs for sales determinations taking more than 16 estimated hours of preparation. Sales determinations equal to or less than 16 estimated hours of preparation will be billed to the customer as part of the sales agreement, or after engineering work is completed in instances where the sale is not finalized.

Under *Idaho Code* § 61-328, the sale of Assets must meet the following criteria:

1. The proposed transaction must be consistent with the public interest;
2. The cost and rates for supplying service must not be increased because of the transaction; and
3. The City must have the bona fide intent and financial ability to operate and maintain the Assets in the public service.

In examining Idaho Power's proposed transaction with the City, Staff notes that its assessment here is specific to this case. Analyses of such transactions under Idaho Power's Rule M and *Idaho Code* § 61-328 depend on their unique circumstances. Staffs comments are not intended as a generic endorsement of Idaho Power's transfer and sale agreements or the methodologies used therein.

The Company maintains there will be no mixed ownership of facilities, that the Agreement requires the City to provide operation and maintenance of all facilities beyond the POD after the sale is complete, and that the City will prepay engineering costs as required in accordance with Rule M. Staff accepts the Company's assurances.

The Company also asserts that the transaction satisfies the requirements of *Idaho Code* § 61-328. The Company states that, because the Assets only serve the City, and are all located beyond the City’s POD, the Asset sale will not affect the deliverability and reliability of electric service to other customers and is thus consistent with the public interest. Staff believes the transaction between the Company and City meet the requirements.

Staff believes the City has agreed it has the bona fide intent and financial ability to operate and maintain the Assets. Staff believes that this acknowledgement satisfies the statutory requirement regarding the City's intent and ability to operate and maintain the Assets. The remaining requirement under *Idaho Code* § 61-328 is that the transaction must not increase the cost and rates for supplying service.

Analysis of Sales Price Methodology

The Application states that the sales price methodology in this case ensures that the transaction will not negatively impact the Company or its other customers. The Company applied a similar methodology in Case Nos IPC-E-15-26, IPC-E-16-31, IPC-E-17-17, and IPC-E-18-10. Table No. 2 below reflects the five-component methodology described in the Application that the Company uses for establishing the sale price for the Assets. These components and the amounts associated with each are listed in the table.

Table No. 2: Calculation of Asset Sale Price

Net Book Value	$ 401,075
True-up of Past Levelized Rate of Return	$ 118,537
Near Term Rate of Return Impact Resulting from Sale of Assets	$ 74,347
Near Term Operational Impact Resulting from Sales of Assets	$ 106,132
Net Tax Gross-up	$ 93,435
Subtotal	$ 793,526
Work Order Closing Costs	$ 640
Engineering Costs	$ 900
Total	**$ 795,066**

The Company's treatment of each of these components relies on an approach used to compute the Rule M monthly facilities charge rate, which was established as part of the Company's last general rate case and approved in Commission Order Nos. 32426 and 32481. This approach allows the Company to recover its authorized rate of return, book depreciation, operation and maintenance expenses, administrative and general expenses, income taxes, property taxes, regulatory fees, working capital, and insurance by means of a flat monthly facilities charge equal to 1.41% of the original cost of Company-owned equipment installed. The approach establishes a fixed 31-year depreciation life for all Schedule 19 assets subject to the monthly facilities charge. After 31 years, the monthly facilities charge rate decreases to 0.59% because the Company is not authorized to recover either depreciation or a rate of return on fully depreciated capital assets.

Net Book Value

The Assets include facilities installed between 1970 and 2018. The Company has determined the net book value for each of these assets as original investment cost less accumulated 31-year straight line depreciation. Staff agrees with the Company's method for computing net book value and believes its inclusion in the sales price is appropriate.

True-up of Past Levelized Rate of Return

Depreciation causes the net book value of assets, the authorized return on those assets, and associated income taxes to decrease continuously over 31 years. In order to avoid the need for imposing an annually decreasing facilities charge, the 1.41% Rule M flat rate charge is computed to include a "levelized," time-value equivalent for these revenue requirement components. This allows a single facility charge over the life of the equipment even though net book value decreases over time. Under the resulting levelized payment schedule, facilities charge customers effectively underpay the Company for the first 10 years of an asset's life, but then overpay for the remaining period, so the Company fully recovers its revenue requirement over the asset's depreciable life. Thus, a customer who purchases a facility from the Company before it is fully depreciated still owes the Company a "true-up" for the difference between the Company's authorized rate of return and the levelized rate recovered in the monthly facilities charge. Staff believes that the true-up and the Company's methodology for computing this component are appropriate.

Near-term Rate of Return Impact Resulting from the Sale of Assets

The Application states that when a customer buys an asset subject to the facilities charge, the return that the Company would have earned through the facilities charge is foregone, that the Company has limited opportunity to re-invest those funds in other assets, and that the Company will not be able to earn its authorized rate of return until an alternate investment is recognized in a future rate case. To offset this loss, the Company has included the present value of three years of the levelized rate of return component of the Rule M facilities charge. The Company chose three years based on its estimate of average intervals between general rate cases.

Staff agrees that the Asset sale could result in lost return until an alternate investment is made and recognized in a future general rate case. Staff believes that this revenue loss could be a disincentive for the Company to sell its facilities to the City and other similarly situated customers. Consequently, Staff maintains that it is reasonable to include a revenue loss component in the asset evaluation methodology. Staff believes that inclusion of the near-term rate-of-return impact in the Asset sales price does not violate the requirements of *Idaho Code* § 61-328.

Near-term Operational Impact Resulting from Sale of Assets

A portion of the monthly facilities charge paid by the City is intended to recover costs associated with the regulatory fees, Operations & Maintenance ("O&M") expense, Administrative & General ("A&G") expense, and working capital. After the sale, the Company will no longer receive this revenue.

Staff believes that once the Assets are sold, the Company will no longer be responsible for any associated O&M, A&G expense, or working capital. Once the O&M and A&G expenses are removed after the sale, the Company should no longer need to receive a component of facilities charge revenue to cover these expenses. Because the expenses and the revenues are presumably equal amounts and are both removed simultaneously, other Schedule 19 customers should not be adversely impacted. There may still be a timing difference. Staff recognizes that the City has agreed to the sale price and thus inclusion of this component of the facilities charge, and that its inclusion does not appear to otherwise violate the requirements of *Idaho Code* § 61-328. Given the City's agreement upon its arms-length bargaining with Company, Staff believes the transaction is reasonable.

Net Tax Gross-up

There is a mismatch between the straight-line depreciation methodology used to determine book value and the accelerated depreciation methods used for assessing income taxes. This mismatch will generally result in some, or all, of the asset's book value being treated as a gain for income tax purposes. Accordingly, it is necessary to "gross-up" this portion of the book value, as well as any other gain resulting from the sale. Staff agrees that the Company's net tax gross-up methodology is appropriate but believes that the computation of the gross-up amount should be based only on the components included in the Assets sales price.

<u>Summary</u>

Staff agrees that the Company's treatment of net book value, true-up of the levelized rate of return, loss of near-term return, and net tax gross-up (based on an adjusted sales price) are appropriate and protect ratepayers as required by *Idaho Code* § 61-328. Staff acknowledges that both the Company and the City have agreed to the Asset sales price in the Agreement of $795,066 and other included terms and conditions. The sales price will not harm other ratepayers or cause rates to increase. Thus, Staff concludes the proposed transaction satisfies the requirements of *Idaho Code* § 61-328 and is consistent with the requirements of the Company's Rule M.

Shifting Facilities – POD Relocation

The City has requested a relocation of the POD ("Shifting Facilities") and the Company has asked for additional compensation to cover this expense. The equipment that is being relocated is still going to be owned, operated, and maintained by the Company, and the Shifting Facilities have been separated from the Assets being sold. Staff has reviewed the relocation expenses and believes the costs are appropriately included in the total sales price.

Removal of Sectionalizer – Retirement

The Agreement also contains provisions requiring the City to compensate the Company for costs associated with the removal of a sectionalizer located at the wastewater treatment facility. Pursuant to Idaho Power's Rule M, the City must pay the "non-salvable cost" (the book value of the sectionalizer, net of any removal of costs and salvage credit). Staff believes the cost for removal of the equipment is fair and reasonable and finds it is necessary to retire the sectionalizer located onsite.

Accounting Treatment

The Company's Application outlines the accounting treatment it will apply to the entire transaction if approved by the Commission. The Company's proposed accounting treatment will remove the Assets from the Company's books, record the gain on the sale of the Assets, and record the impact on the Company's income taxes. Although income tax entries may change, Staff has reviewed the proposed accounting treatment and believes it is acceptable.

STAFF RECOMMENDATIONS

Staff recommends that the Commission approve Idaho Power Company's Application and proposed accounting treatment for the sale of Assets, and the other costs, to the City of Nampa as proposed. Staff believes that the proposed sale meets all the requirements of *Idaho Code* § 61-328, as well as meeting the requirements of Idaho Power's Rule M.

Respectfully submitted this 5th day of May 2020.

John Hammond

John R. Hammond, Jr.
Deputy Attorney General

Technical Staff: Travis Culbertson
Kevin Keyt
Mike Morrison

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 5th DAY OF MAY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-20-10, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

LISA D NORDSTROM
SHELLI D STEWART
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: lnordstrom@idahopower.com
sstewart@idahopower.com
dockets@idahopower.com

GRANT T ANDERSON
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: ganderston@idahopower.com

/s/ Reyna Quintero

SECRETARY