

**DECISION MEMORANDUM**

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL**

**FROM: LISA NORDSTROM**

*ATL-E-03-01*

**DATE: MARCH 6, 2003**

**RE: ATLANTA POWER INVESTIGATION**

On September 11, 2000, the Commission received a petition from residents of Atlanta, Idaho, enumerating their concerns about the electric service being provided by Atlanta Power Company (Atlanta Power; Company). The petition requested "a formal investigation into the reliability of electrical service for the Atlanta townsite." In an October 2000 Decision Memorandum, Staff proposed to "audit the Company, compile outage information, identify potential improvements and associated costs and survey customers concerning their desire to improve service reliability and the amount they are willing to pay to do so." The Commission approved Staff's recommendation that the customer complaints initially be processed on an informal basis.

Staff worked with the Company and its customers during a two-year informal review period that culminated in several improvements and the attached report detailing Staff's findings. The financial analysis and customer survey upon which the report is based are also attached to this memorandum.

**SUMMARY OF STAFF'S INVESTIGATION**

The investigation focused on three areas of concern: the Company's ability to promptly repair the system when an outage occurs, a perceived lack of communication with customers, and the need for a backup generator. During the two-year investigation, two of the three identified areas of concern have been improved, to wit: a third person who lives in Atlanta is now available to assist with system problems and a local telephone number has been

established to keep customers informed of planned outages and progress on repairs when the system is out of service. Staff recommends no formal Commission action in these areas.

### **Backup Generator**

The Commission is no doubt aware that Atlanta Power Company is a backcountry power system with a single source of generation. Because it is not interconnected with any other electric supply system, the entire system is without power if the turbine or generator fails. When rates were last established in 1993, the capital and operating costs of a backup generator were included. Sometime later the fully depreciated backup generator quit working and has not been repaired.

Atlanta Power's position is that the backup generator is old, inefficient, and not economic to repair. Since it quit working, Atlanta Power rents a backup generator from Boise (an all-day trip) when an outage will take multiple days to repair. Atlanta Power believes that if the system can be repaired or parts ordered and received in a comparable amount of time, it is a better use of the Company's time and money to work on repairing the system. This policy, coupled with unplanned outages that are difficult to diagnose and replacement parts that are not stocked in the Boise area, can leave Atlanta Power customers without power for a few days at a time.

Atlanta Power has offered to provide an on-site backup generator if the costs can be recovered from its customers. Atlanta Power has even provided cost estimates for backup generation that were below those obtained by Commission Staff. However, the audit reveals that revenues from current rates are not enough to reimburse the Company for the costs of having a Company-owned on-site backup generator.

Staff recommends that Atlanta Power continue to bring in a leased generator when a multi-day outage is identified rather than purchase a new one for several reasons. First, a survey of the 65 Atlanta Power customers indicates that only one of the 50 responding customers is willing to pay substantially higher rates to have Atlanta Power own an on-site backup generator. Second, nearly a third of Atlanta Power customers have already invested in personal backup generators. Moreover, a Company-owned backup generator cannot provide electricity to all customers under all outage scenarios.

## **Staff Audit**

Using the Company's estimated 1999 capital structure, embedded cost of debt, and a 10% cost of equity, Staff calculated a 9.24% overall rate of return based upon the information retained by the Company. In the context of a 1999 test year, Staff estimated that the Company is over-earning by approximately \$3,000<sup>1</sup> or 5.6%. The test year rate base does not include diesel backup generators because they were determined to not be used and useful in previous reviews.

On June 4, 1993, the Commission in Case No. ATL-E-93-1 directed the Company "to implement, and utilize proper utility accounting procedures and recordkeeping, including, but not limited to, the preparation and retention of adequate source documentation." Order No. 24925. Staff noted that the Company has not complied with this Order and still needs to improve its recordkeeping. Because Atlanta Power last submitted an annual report for calendar year 1997, the Company is in violation of *Idaho Code* § 61-405, which requires such reports to be submitted before April 15 of each year. Staff recommends that all past-due annual reports be filed by June 15, 2003.

The Company has also established a pattern of paying obligations in an untimely fashion as noted in Section X, page 11 of Attachment A to the report. This practice incurs additional interest charges and late fees that are not the responsibility of the ratepayers, increases the Company's unpaid obligations, and diminishes Company cash. None of these late fees are incorporated into the revenue requirement estimated in Staff's analysis. In September and October 2002, the Company paid off two loans that were in arrears.

On May 9, 2002, the Federal Energy Regulatory Commission (FERC) issued a 30-year license for the Atlanta Power Station Hydroelectric Project. The Order issuing the license placed a number of requirements on the licensee. However, to Staff's knowledge, the costs associated with the licensing conditions to be borne by the Company are not currently known and measurable. Finally, Staff intends to work with the Company to develop a plan to complete reasonable maintenance items.

## **Staff Procedural Recommendations**

Staff identified two alternate procedures, one of which the Commission may wish to adopt, to bring closure to this investigation. First, the Commission may choose to develop an

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<sup>1</sup> For more information about revenues, expenses, and rate base, see the first two paragraphs of Section XI, page 12 of Attachment A to Staff's report.

evidentiary record and take formal comment from Atlanta Power and its customers regarding the backup generator issue. To the extent that some customers believe Atlanta Power is required to provide backup generation at the current rate level, an open case would provide the opportunity for customers to argue this matter before the Commission. A Commission Order that adopts Staff's recommendations or requires purchase of a backup generator would also allow existing and future Atlanta Power customers to take appropriate actions, if necessary, to ensure their energy needs are met.

Staff also recommended a less formal alternative. Staff offered to send a letter to current customers and the Company that explains the survey results, Staff's findings regarding backup generation, and current status of preventive maintenance issues. Although this alternative would advise existing customers what to expect concerning Company-owned backup generation, some customers may not find a letter from Staff to be a satisfactory resolution.

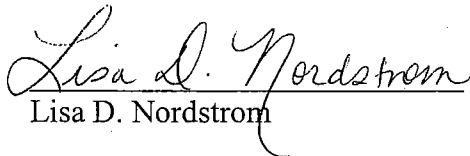
#### **ATLANTA POWER'S REPOSE**

A copy of the draft report, including its attachments and schedules, was sent to Company President Lynn Stevenson. Mr. Stevenson has reviewed the report and indicated that he has no comments about the report to present to the Commission.

#### **COMMISSION DECISION**

Does the Commission wish to take action based on the results of Staff's informal investigation of Atlanta Power? If so, does the Commission wish to:

1. Develop an evidentiary record by opening a case to take formal comment from Atlanta Power and its customers on the backup generator issue prior to issuing an Order?
2. Direct Staff to send a letter to current customers and the Company that explains the survey results, Staff's findings regarding backup generation, and current status of preventive maintenance issues? or
3. Pursue a different course of action altogether?

  
Lisa D. Nordstrom

M:AtlantaPowerInvestgm\_In

**Idaho Public Utilities Commission  
Staff Report on the  
Informal Investigation Of Atlanta Power  
Company Customers' Petition**

**Prepared by  
Keith Hessing and Patricia Harms**

**March 6, 2003**

## **INTRODUCTION**

On September 11, 2000 the Commission received a petition from some residents of Atlanta, Idaho, enumerating their concerns about the electric service being provided by Atlanta Power Company (Atlanta Power; Company). The petition requested "a formal investigation into the reliability of electrical service for the Atlanta townsite."

At its Decision Meeting on October 10, 2000, the Commission approved Staff's recommendation that the customer complaints initially be processed on an informal basis. In its Decision Memorandum, Staff proposed to "audit the Company, compile outage information, identify potential improvements and associated costs and survey customers concerning their desire to improve service reliability and the amount they are willing to pay to do so." At the conclusion of the investigation, Staff's memo indicated Staff would "report its findings to the Commission with recommendations for further action."

Staff has worked with the Company and its customers during this two-year informal review period, resulting in several improvements. Staff now has recommendations for the Commission's consideration.

## **BACKGROUND**

Approximately 20 years ago the electric utility supplying power to the Atlanta townsite ceased operation due to a fire in the powerhouse at its hydropower generating facility. Approximately two years later a group of investors formed the current Atlanta Power Company. The new Company acquired and used the then-standing poles and wires to deliver energy to those who chose to be customers. Within a year the system was metered for the first time and a powerhouse was constructed at the old dam a few miles below town on the Middle Fork of the Boise River. Most of the used equipment in the powerhouse was surplus, including the turbine and generator.

Over the ensuing years much has happened to Atlanta Power's system. Ancient poles have rotted and been replaced or stubbed. Trees have fallen across the wires and caused the replacement of broken poles and wires. Transformers manufactured at the beginning of the last century have been replaced to address polychlorinated biphenyl (PCB) concerns. The dam failed and was replaced. The hydropower generator failed and was replaced with a new, more efficient model. A forest fire burned a portion of the distribution system, part of which was rebuilt.

These events of the last 20 years have caused a number of things to occur. There have been many outages, some for lengthy periods of time. Many of the facilities necessary for the generation and delivery of power to customers have been replaced and/or upgraded. Atlanta Power Company has made substantial investment in the power supply system.

The customer petition leading to this investigation stated that Atlanta Power customers pay the highest rates in the nation, a system average of approximately 37 cents per kWh. While this could easily be true, Atlanta Power Company may also be the smallest stand-alone electric utility in the nation in terms of number of customers served and total load. Unfortunately, Atlanta Power Company cannot capture the economies of scale that larger utilities can. Atlanta Power's system costs are spread over very few customers, thus resulting in high rates.

Atlanta Power Company is a backcountry power system with a single source of generation. It is not interconnected with any other electric supply system. If the turbine or generator go out, the entire system is without power. There is no other generator running that will automatically pick up the load. If a tree limb blows across the wires causing a short and then clears, there are no automatic reclosers to temporarily interrupt power and then restore it when the fault has cleared. When this situation occurs in Atlanta, the problem normally shuts down the entire system until it is visually checked and manually restarted.

There are currently three people who are authorized to work on the system. All three have other jobs and only two live in Atlanta. The third person was recently added to assist as needed. Each of the three has different levels of system repair knowledge and capabilities. There have been times when it has taken 24 hours or more just to diagnose a system problem. The number and length of outages can be, and have been, substantial for Atlanta Power customers.

Over the years Atlanta Power's rates have included the capital and operating costs of a backup generator. When rates were last established in 1993, these costs were included. Sometime later the generator quit working and has not been repaired. Atlanta Power's position is that it is old, inefficient and not economic to repair. The non-functional backup generator is now completely depreciated. Since it quit working, Atlanta Power rents a backup generator from Boise when a problem is diagnosed that will take multiple days to repair. It takes a day to drive to Boise, lease the generator, hook it to a truck, tow it to Atlanta and connect it to the Atlanta system. Atlanta Power believes that if the system can be repaired or parts ordered and received

in a comparable amount of time, it is a better use of the Company's time and money to work on repairing the system. This policy, coupled with unplanned outages that are difficult to diagnose and replacement parts that are not stocked in the Boise area, can leave Atlanta Power customers without power for a few days at a time.

## **STAFF REVIEW**

As part of its review the Commission Staff audited Atlanta Power Company and mailed a survey to Company customers.

### Staff Audit

Staff's audit report and its related schedules are included as Attachment A to this report. Although written more than a year ago, the report has been updated with relevant information as it came to Staff's attention. Staff estimates that after adjustments to test year 1999's drafted financial information and pro forma year 2000 adjustments, the Company is over-earning by approximately \$3,000<sup>1</sup> or 5.6%. The test year rate base does not include any diesel backup generators because they were determined to not be used and useful in previous reviews. Using the estimated 1999 capital structure of the Company, embedded cost of debt, and a 10% cost of equity, Staff calculated an overall rate of return of 9.24%. This earnings determination is an estimate because Staff drafted 1998 and 1999 annual report information. To date, the Company has not filed annual reports for 1998, 1999, 2000 and 2001.

Staff often relied upon management's representations while drafting rate base, revenue and expense information. In other instances, documentation was obtained directly from the organization with which the Company had a financial relationship. Information pertinent to the Company's financial position may exist that Staff did not receive and which was therefore not incorporated into this analysis.

The Company's records are in violation of Commission Orders and Rules as described in Section V, pages 4 through 6 of Attachment A. On June 4, 1993, the Commission in Case No. ATL-E-93-1 directed the Company to "to implement, and utilize proper utility accounting procedures and recordkeeping, including, but not limited to, the preparation and retention of

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<sup>1</sup> For more information about revenues, expenses, and rate base, see the first two paragraphs of Section XI, page 12 of the attached audit report in Attachment A.



adequate source documentation.” Order No. 24925. Staff finds that the Company still needs to improve its recordkeeping, especially in the preparation and retention of adequate source documentation so as to facilitate subsequent retrieval. The necessary improvements include, but are not limited to: preparing and maintaining Board of Directors’ meeting minutes, performing a periodic inventory of assets that includes preparation and maintenance of a list of capital assets on at least an annual basis, issuing checks sequentially and entering payment information at the time of issuance, performing bank statement reconciliations each month in a timely manner, and obtaining and retaining documentation supporting each financial transaction. Because Atlanta Power last submitted an annual report for calendar year 1997, the Company is in violation of *Idaho Code* § 61-405, which requires such reports to be submitted before April 15 of each year.

The Company has also established a pattern of paying obligations in an untimely fashion as noted in Section X, page 11 of Attachment A. This practice incurs additional interest charges and late fees that are not the responsibility of the ratepayers and increases the Company’s unpaid obligations and/or diminishes Company cash. None of these late fees are incorporated into the revenue requirement estimated in this analysis. In September and October 2002, the Company paid off two loans that were in arrears.

On May 9, 2002, the Federal Energy Regulatory Commission (FERC) issued a 30-year license for the Atlanta Power Station Hydroelectric Project. The Order issuing the license placed a number of requirements on the licensee. Staff does not believe that the additional project costs as estimated in the license will be fully borne by the Atlanta Power Company because certain costs have been funded by the State of Idaho as discussed in Section VI, last paragraph on page 8 and first two paragraphs on page 9 of Attachment A. However, to Staff’s knowledge, the costs associated with the licensing conditions to be borne by the Company are not currently known and measurable.

#### Customer Survey

On September 10, 2002, the Commission Staff mailed a questionnaire to all 65 Atlanta Power Company customers. Fifty of the 65 responded, although not all respondents answered all questions. A brief report on the survey results, including a copy of the questionnaire, is Attachment B to this report. The questionnaire sought customer response on three issues identified in the initial customer petition: 1) the need for an on-site Company-owned backup

generator, 2) the need for a third Atlanta Power individual to resolve problems when the other two are not available, and 3) the need to improve communications between the Company and its customers.

Survey results indicate a substantial split among Atlanta Power customers concerning the need for a backup generator. One group of customers adamantly believes that they are entitled to a Company-owned backup generator connected to the system that can quickly provide power when a system problem occurs. This group is generally composed of the same customers who signed the original petition. They argue that their rates include costs for a backup generator. Other customers believe that they are fortunate to have the service they have and that they cannot expect more reliable electric service in Idaho's central mountains. However, there is one area in which virtually all customers agreed. Forty-nine of fifty survey respondents were not willing to pay any substantial amount more than current rates to fund a Company-owned backup generator. Certainly there are some who believe they are entitled to a Company-owned backup generator with no rate increase. However, the results of the Staff audit indicate that if rates were established today based on the Company's recent costs, a substantial rate increase would be required to cover backup generator costs. Other survey results show that 15 of 50 customers have their own backup generators. Another 8 of the 50 responding customers do not have backup generators and do not see a need for Atlanta Power to have one, even if it could be provided with no rate increase.

Staff recommends that the current Company policy regarding backup generation be continued (i.e., Atlanta Power Company lease and bring in a backup generator when a multi-day outage is identified). This recommendation is based on several factors. First, survey results indicate that only one of the fifty responding customers is willing to pay substantially higher rates to have Atlanta Power own an on-site backup generator. Second, nearly a third of Atlanta Power customers have already invested in personal backup generators. A third consideration is that a Company-owned backup generator cannot provide electricity to all customers under all outage scenarios. If the problem causing an outage is on the distribution system between the backup generator and the customer, only customer-owned generator equipment located on the customer's property can guarantee that electricity will be supplied to that customer.

Survey results also indicate that 24 of 45 respondents favor the Company having an additional, third person to assist with system trouble-shooting and repair. Atlanta Power has

recently identified a third person that lives in Atlanta who can be called upon to assist with these duties.

Survey results show 30 of 45 respondents would use a telephone-based voice messaging system with a local Atlanta phone number designed to keep customers informed of system repairs and planned outages. Atlanta Power believes this to be a cost-effective, useful service and put the telephone in service during February 2003. The Atlanta phone number for this service is (208) 864-2228. Mr. Stevenson and Staff have discussed the nature, timing and extent of voice messages that would most benefit the Company's customers.

The survey invited other customer comments concerning Atlanta Power Company. A significant number of customers noted that preventative maintenance would go a long way toward preventing unplanned outages and that Atlanta Power's rates are too high. A policy that considers both sentiments would encourage preventive maintenance and thus reduce existing utility outages, repair costs, and the need for future rate increases. The Commission Staff intends to work with the Company on such a plan.

#### Other Comments

Atlanta Power Company, a regulated investor-owned electric utility, has a responsibility to balance providing the best possible electric service with affordable rates. Based on the information obtained by the audit, customer survey, and other communication with customers and Atlanta Power Company, the Commission Staff believes that current rates and policies have moved the Company close to this balance. Some customers have expressed a desire for service quality improvements, but not if it would require a rate increase. There are still improvements that can be made at little or no cost that need to be identified and implemented.

#### **SUMMARY OF STAFF'S SUBSTANTIVE RECOMMENDATIONS**

As previously stated, the two-year investigation period allowed for a substantial amount of communication between the Commission Staff, Atlanta Power Company and the Company's customers. Consequently, two of the three previously identified areas of concern have been improved, to wit: a third person who lives in Atlanta is now available to assist with system problems and a local telephone number has been established to keep customers informed of

planned outages and progress on repairs when the system is out of service. Staff recommends no formal Commission action in these areas.

Atlanta Power has offered to provide an on-site backup generator if the costs can be recovered from its customers. Atlanta Power has even provided cost estimates for backup generation that were below those obtained by Commission Staff. However, the audit reveals that revenues from current rates are not enough to reimburse the Company for the costs of having a Company-owned on-site backup generator. The customer survey indicates that customers are not willing to pay any substantial rate increase to cover the costs of a backup generator. For these reasons Staff recommends that Atlanta Power continue to bring in a leased generator when a multi-day outage is identified rather than purchase a new one.

The recordkeeping and past-due annual report issues discussed above are similar to the financial issues identified in Case No. ATL-E-93-1. Staff recommends that all past-due annual reports be filed by June 15, 2003.

Finally, Staff intends to work with the Company to develop a plan to complete reasonable maintenance items.

## **PROCEDURAL RECOMMENDATIONS**

Upon receiving this report, the Commission may decide to develop an evidentiary record by opening a case to take formal comment from Atlanta Power and its customers on the backup generator issue. Staff believes that its substantive recommendations are somewhat unusual and may be unexpected. To the extent that some customers believe Atlanta Power is required to provide backup generation at the current rate level, an open case would provide the opportunity for customers to argue this matter before the Commission. A Commission Order that adopts Staff's recommendations or requires purchase of a backup generator would allow existing and future customers of Atlanta Power to take appropriate actions if necessary to ensure their energy needs are met.

The Commission may choose a second, less formal, alternative. If the Commission so desired, Staff could send a letter to current customers and the Company that explains the survey results, Staff's findings regarding backup generation, and current status of preventive maintenance issues. This method would continue the informal nature of the investigation but still allow existing customers to know what to expect concerning Company-owned backup

generation. However, some customers may not find a letter from Staff to be a satisfactory resolution.

# **ATTACHMENT A**

**Idaho Public Utilities Commission  
Staff Financial Analysis  
Atlanta Power Company**

**Prepared by  
Patricia Harms  
Auditor**

**November 30, 2001**

## I. PURPOSE OF REVIEW

Staff commenced an on-site analysis of Atlanta Power Company, Inc. (Atlanta Power; Company) records at its office in Bliss, Idaho during November 2000 to identify its revenues, expenses and rate base. At the same time, Staff made observations regarding the Company's accounting records and operations. At an October 4, 2000 decision meeting, the Commission authorized Staff to conduct an informal investigation into the reliability of the Company's service in response to a petition from certain Atlanta Power customers.

The following analysis was not performed in conjunction with any case that currently exists or which might be proposed. If it had been, Staff would have required additional documentation from the Company to support its financial transactions. Further, additional issues might arise in a rate case based upon the particulars of such a filing.

## II. FINDINGS

Staff estimates that after adjustments and use of a 1999 test year, Atlanta Power is over-earning by \$3,218 or 5.6% (see Section XI and Schedule 1 of this report for more information).

This earnings determination is an estimate because Staff drafted 1998 and 1999 annual report information in order to estimate the revenues, expenses and rate base of the Company. Not only were these reports not filed with the Commission, neither financial statements nor tax returns exist for those years. Staff often relied upon management's representations while drafting rate base, revenue and expense information. In other instances, documentation was obtained directly from the organization with which the Company had a financial relationship.

Because Atlanta Power last submitted an annual report for calendar year 1997, the Company is in violation of *Idaho Code* § 61-405, which requires such reports to be submitted before April 15 of each year.

The Company's records are in violation of Commission Orders and Rules as described in Section V of this report. On June 4, 1993, the Commission in Case No. ATL-E-93-1 stated, "the greatest improvement is needed in the preparation and retention



of adequate source documentation.” Staff finds that the Company still needs to improve its recordkeeping - especially in the preparation and retention of adequate source documentation so as to facilitate subsequent retrieval.

The Company has also established a pattern of not paying obligations in a timely fashion as noted in Section X of this report. This practice incurs additional interest charges and late fees that are not the responsibility of the ratepayers, increases the Company’s unpaid obligations, and/or diminishes Company cash. One such obligation is related to the Company’s legal fees incurred when it applied for licensing of its facilities by the Federal Energy Regulatory Commission (FERC). On May 23, 2002 the Company requested authority to execute a Promissory Note payable to its counsel in order to pay past due amounts for legal services. According to the Company, this note represents a discount on the outstanding legal bill by waiving the accrued interest on the past due amounts. The Commission granted that authority on June 20, 2002 in Case No. ATL-E-02-1. Order No. 29059.

### **III. RECOMMENDATIONS**

Company personnel should maintain adequate supporting documentation of transactions and file them in a manner that allows for subsequent retrieval. The necessary improvements in recordkeeping include, but are not limited to:

- Preparing and maintaining Board of Directors’ meeting minutes;
- Performing a periodic inventory of assets that includes preparation and maintenance of a list of assets (including materials and supplies) on at least an annual basis;
- Issuing checks sequentially and entering payment information at the time of issuance;
- Performing bank statement reconciliations each month in a timely manner; and
- Obtaining and retaining documentation supporting each financial transaction.

These issues are similar to those identified in Case No. ATL-E-93-1.

Management should also bring the Company into compliance with *Idaho Code* § 61-405 by submitting annual reports for calendar years 1998, 1999, 2000, 2001 and 2002 by June 15, 2003.

#### IV. GENERAL INFORMATION

Atlanta Power Company is an Idaho Corporation. As of September 2001 the Secretary of State (SOS) had administratively dissolved the corporate name because the Company's annual report had not been filed with SOS by its due date. The corporate name was reinstated with SOS on December 13, 2001 as it has been in the past. During the timeframe in which the corporate name was dissolved, officers and shareholders of the Company were personally liable for activities of the Company because no corporate structure legally existed during that time.

In September 2002 the SOS once again administratively dissolved Atlanta Power's corporate name "for failure to file the required annual report form by the date due." After Staff notified the Company of this dissolution, the corporate name was reinstated with SOS on September 13, 2002 and the Company's corporate powers in Idaho were restored.

The Company serves the community of Atlanta, Idaho. According to an October 4, 2001 customer listing provided by Company personnel, the Company serves 63 customers in the following tariff categories:

- (1) 20 permanent resident;
- (2) 6 permanent commercial;
- (3) 36 seasonal resident; and
- (4) 1 seasonal commercial.

The Company's office is located in Bliss, Idaho in the same building as Snake River Sand and Gravel Company, Inc. Please see the Federal Energy Regulatory Commission (FERC) Licensing Section of this report (Section VI) for more information about the Company's power facilities.

**V. COMPLIANCE WITH PRIOR ORDERS REGARDING ANNUAL REPORTS AND ACCOUNTING**

**A. Annual Reports**

The Company has not submitted its 1998, 1999, 2000 and 2001 annual reports to the IPUC. In 1993 the Commission noted that

the Company's failure to file timely annual reports...and its failure to comply with various Commission Orders in violation of Idaho [law have] prevented the Commission and Staff from effectively performing their supervisory and regulatory oversight functions.

Order No. 24925 (Case No. ATL-E-93-1) quoting Order No. 24702 (Case No. ATL-E-92-1).

In the above referenced Order the Commission ordered that the "...Company has until June 15, 1993 to submit its 1992 Annual Report. Reference Idaho Code § 61-405." The Company submitted the report on that date. However, the annual reports for 1993, 1994, 1995, 1996, and 1997 were not submitted until September 1998 after Staff requested those reports during an audit of the Company's 1997 financial records. Staff requested the 1998 and 1999 annual reports for this current investigation. However, the reports were not provided and Company personnel did not indicate when they were going to file the reports. Staff drafted 1998 and 1999 annual report information based upon the information available from the Company in order to estimate the revenues, expenses and rate base of the Company because no annual reports, financial statements nor tax returns existed for those years.

**B. Recordkeeping**

Order No. 24925 from Case No. ATL-E-93-1 dated June 4, 1993 also stated that the:

...Company is further ordered and directed to adopt, implement, and utilize proper utility accounting procedures and recordkeeping, including, but not limited to, the preparation and retention of adequate source documentation.

The above referenced Order noted that "the greatest improvement is needed in the preparation and retention of adequate source documentation." While testifying in Case

No. ATL-E-93-1, Lynn Stevenson stated, "...once the books were sorted out in accordance with utility standards, they could thereafter be maintained in a professional manner."

The Company still needs to improve its recordkeeping - especially in the preparation and retention of adequate source documentation. As noted previously, Staff drafted 1998 and 1999 annual report information in order to estimate the revenues, expenses and rate base of the Company because the Company had not filed those reports and neither financial statements nor tax returns existed for those years. Staff often relied upon management's representations while drafting rate base, revenue and expense information. In other instances, documentation was obtained directly from the organization with which the Company had a financial relationship.

Staff also recommends that the Company improve its controls over checks. Some checks are removed from the Company checkbook without entering the amount or payee of the check. Instead, the Company bookkeeper records some check information into the Company's computer system once the checks are returned with the monthly bank statements. At the beginning of this financial analysis, several months of bank statements and returned checks were missing.<sup>1</sup> Moreover, Company personnel had not recorded financial information related to some of the checks that processed in those months. At Staff's request, Company personnel obtained copies of the missing statements from the bank. From those statements, Company personnel deduced the payee and probable reason for payment. However, Staff recommends that the Company record all checks at the same time that the check is written. An invoice, request for reimbursement or other source documentation should also be maintained coincident with each payment from the Company's bank account. In addition, Staff recommends that the Company issue checks sequentially. Staff observed gaps in the check numbers processed against the Company's bank account. Staff does not know whether these checks remain unissued, have been issued but not cashed, are void, or have been lost or stolen.

Staff further recommends that reconciliations of Company bank statements be performed each month in a timely manner. Due to its size, the Company has one

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<sup>1</sup> During Staff's on-site visit, the Company President requested that the bank statements be delivered to the Company's office address in Bliss. This should eliminate missing bank statements and returned checks.

individual preparing the customer billings, posting the customer payments, making deposits and performing bank statement reconciliations when sufficient information and time is available. During Staff's on-site review, selected payments on accounts were traced to the Company's deposit slip copies and bank statements. From that review, it appears that a September 1999 deposit of approximately \$400 was not recorded in the Company's bank account although the Company kept a copy of the deposit slip. The Company bookkeeper indicated that the deposit was mailed to the bank but was unaware that it was not deposited to the Company's account. The status of the deposit was not resolved after further research by Atlanta Power's bookkeeper.

Staff also recommends Atlanta Power prepare and retain written minutes for each meeting of the Company's Board of Directors. These minutes are essential for documenting Board actions, such as the decision to increase Lynn Stevenson's management fee from \$18,000 annually (\$1,500 monthly) to \$24,000 annually (\$2,000 monthly). As noted in the earnings review of the 1997 test year, this management fee is to provide for office space, office personnel, computer time for billing, billing and collection of monthly charges, office supplies and stamps for billing, power charges, telephone charges, vehicle operations and time and travel for the manager (Company President). Based upon management's representations, this \$6,000 annual fee increase (34%) began in 1998 but there is no documentation of the Board's authorization.

Order No. 24925 from Case No. ATL-E-93-1 dated June 4, 1993 stated that the Company "...is further ordered and directed to prepare within 90 days an inventory of all of its long-term assets, including serial numbers and material and supplies inventory, together with an explanation of the evaluation method used." The Company has not maintained its inventory. For example, as noted in the Rate Base and Related Adjustments Section XII of this report, Company personnel did not know the composition of the Company's materials and supplies when asked by Staff. Staff recommends that on at least an annual basis the Company perform periodic inventories of its physical assets and maintain records detailing the description and value of the assets, including the evaluation method used.

Information pertinent to the Company's financial position may exist that Staff did not receive and which was therefore not incorporated into this analysis.

