

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: AUGUST 27, 2007

SUBJECT: CASE NO. ATL-E-07-01 (Atlanta Power)
REQUEST FOR ACCOUNTING ORDER

On August 1, 2007, Atlanta Power Company (Atlanta Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting an Order authorizing the Company to defer on its financial accounting records increased operating costs associated with the failure of its hydroelectric turbine. The Company contends that the expenses are extraordinary in nature and well beyond its ability to pay from internally generated revenues. These expenses are presently being paid from personal funds of the owners of the Company.

Hydro Turbine Failure

In early June 2007 the Company reports that its turbine at the Kirby Dam on the Middle Fork of the Boise River failed. The Company, in order to provide continued service to customers, arranged for the rental of a diesel generator. The diesel generator was installed and has been providing service since June 16, 2007. Due to the excessive cost of providing service in this manner, the generator is currently only operating 12 hours per day – six hours in the morning and six hours in the evening.

The Company reports that it has taken the turbine to Yanke Machine Shop in Boise for repair. Yanke Machine Shop has estimated the cost to repair the turbine will be approximately \$60,000 and has informed the Company it cannot complete the repairs to the turbine before the last week in August 2007. Therefore, the Company will continue to experience the extraordinary expenses associated with operation of the diesel generator.

Extraordinary Costs

As of July 26, 2007, the Company states that it has experienced the following extraordinary costs associated with the operation of the diesel generator.

Rent – 400 Hours @ \$12.50/Hr	\$5,000.00
Diesel Fuel – (2,200 gallons)	6,180.00
Electric Panel – (Connect to grid)	741.00
Gen Set repair – (Water pump)	168.00
Battery, Oil & Coolant	<u>168.00</u>
Total to Date	\$12,257.00

The Company states that it currently has on hand an inventory of approximately 700 gallons of diesel fuel. Therefore, the Company calculates the average hourly fuel consumption to be approximately 3.75 gallons per hour (2,200 gallons minus 700 gallons = 1,500 gallons/\$400 = 3.75 gallons per hour). With at least 40 days of additional diesel generation expected before the hydro turbine can resume operation, the Company anticipates additional fuel costs to exceed \$3,080 (40 days x 12 hours = 480 hours x 3.75 gallons = 1,800 gallons less 700 gallon inventory = 1,100 gallons @ \$2.80 per gallon = \$3,080). Additional Rent Expense is expected to be in excess of \$6,000 (\$12.50 x 480 hours). The exact costs will be unknown until such time as the hydro turbine is restored to service. The Company expects on occasion to exceed the 12 hours per day of operation to meet the needs of the Atlanta community for special occasions.

Order Authorizing Deferral of Expenses

Atlanta Power is not seeking any recovery of its costs at this time. The Company is requesting an Order from the Commission authorizing the Company to establish a deferred expense account on its books of financial record. The Company proposes to record all of its extraordinary costs associated with the operation of the diesel generator in this deferral account. The Company will make application to the Commission in the future and propose a method of recovery of these costs, once they are known, together with the final costs on repair of the hydro turbine. The Company contends that deferred accounting treatment for regulatory purposes is an appropriate, just and reasonable means of providing the Company an opportunity to seek recovery of the extraordinary costs it is experiencing due to the unexpected failure of the Company’s hydro turbine.

On August 10, 2007, the Commission issued Notices of Application and Modified Procedure in Case No. ATL-E-07-01 and established a deadline for filing written comments of August 24, 2007. Comments were filed by Commission Staff and one of the Company's customers. The Commission Staff recommends that the Company's Application and request for an accounting order be approved. The customer recommends prior to any approval that an audit of the Company's books be conducted to determine whether the Company has invested prior income wisely. The customer believes that customers have been providing the Company with additional funds since 1988 for the future repair and maintenance needs of the Company.

Staff in its comments notes that the Company since filing its Application has purchased a diesel powered backup generator that is now or soon will be supplying the electrical needs of Atlanta Power customers. While this acquisition should reduce generator rental costs during the remainder of the repair period, Staff notes that the purchase has resulted in additional capital investment by the Company. The Company has not requested a deferral of these costs at this time and Staff recommends that ratemaking treatment of this investment be addressed in a later filing.

The granting of a deferral order in this case, Staff notes, does not limit Staff's right to audit, question or challenge the appropriateness, reasonableness and prudence of any cost to be deferred, as this sort of review is critical to protect ratepayers. This type of review is expected by Staff to include review of sufficiently detailed supporting documentation provided by the Company when it seeks recovery of these costs in a subsequent filing. Staff's review at that time will include obtaining and inspecting the Company's accounts and records, including revenues, expenses, capitalized costs and related items.

An additional area of concern noted by Staff is Atlanta Power's annual reports. Annual reports are required by *Idaho Code* § 61-405. The Company's 2004, 2005 and 2006 Annual Reports are overdue. Without such reports, it will be difficult for Staff to understand the financial condition of the Company. Staff informed the Company in mid-June that the information obtained in these annual reports is essential to the processing of any request for rate relief including an emergency surcharge. The Company has been working with Staff and a private consultant to finalize these reports. Staff is informed that the filing of these reports is imminent and that an application for rate relief will immediately follow the filing of the reports. Staff has been further informed that a final Order approving cost recovery will be required to

obtain a loan to pay for turbine repairs before the turbine can be obtain from Yanke's and returned to service.

COMMISSION DECISION

Atlanta Power Company has requested an Order authorizing the Company to defer on its financial accounting records increased costs associated with the failure of its hydroelectric turbine. Staff recommends that the Company's Application be approved. Does the Commission find it reasonable to grant the requested accounting order? Does the Commission find it further reasonable to apprise the Company that bringing itself current in the filing of annual reports will be required as a condition of any rate relief related to its turbine failure?

Scott Woodbury

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