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**BEFORE THE IDAHO PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE SUBMISSION OF  
THE STATUS REPORT OF AVISTA  
CORPORATION AND APPLICATION FOR A  
CONTINUATION OF A POWER COST  
ADJUSTMENT (PCA) SURCHARGE

CASE NO.: AVU-E-02-06  
POTLATCH CORPORATION'S  
COMMENTS

Potlatch Corporation (Potlatch), by and through its attorneys Givens Pursley LLP, files the following Comments on Avista's Application in the above-entitled matter.

**INTRODUCTION**

At the outset, Potlatch submits that Modified Procedure is not an appropriate procedural vehicle for consideration of this Application. Avista's Application raises a number of very significant issues that are well beyond the scope of a traditional PCA pass through case. Potlatch respectfully requests that the Commission conduct evidentiary hearings to consider these issues, which are more fully described below, as well as any other issues that may be raised by the Staff or other intervenors. In the meantime, Potlatch requests that the Commission either (1) deny Avista's request for continuation of the PCA surcharge, or (2) limit a refundable recovery to the PCA amounts that would have been incurred had Avista made its electric and natural gas purchases at actual contemporaneous wholesale market prices, as measured by prices at the market centers at Mid-Columbia (Mid-C) and at Sumas, Washington.

## STATEMENT OF ISSUES

### 1. Avista's deferred purchased power costs are not the result of high market prices.

In his pre-filed testimony, Avista's primary witness, Mr. Kelly Norwood, states that the overwhelming majority of the requested surcharge is due to costs incurred "during the last six months of 2001 when the Company was still experiencing the costs associated with the record-low streamflow conditions and high wholesale market prices." Norwood Direct at P.4, L.2-4. This argument that the abnormally high power purchase expenses in the test period were due in large part to "the extremely high wholesale market price" is a recurring theme throughout Avista's testimony. E.g., Norwood Direct at P.9, L.28. These repeated claims are both largely untrue and very misleading.

The simple fact is that wholesale power prices were not a significant contributor to the Avista's deferred costs during the period from July 2001 through June 2002. In its Production Request Nos. 3.7 and 3.8, Potlatch asked Avista to produce its average price paid per mwh hour during the relevant period and the corresponding average Mid-C prices. As the attached Response shows, only July of 2001 shows Mid-C prices that could be characterized as high. Market prices for the remaining 11 months were in fact well within, or at the low end of, historic price ranges.

The real reason for Avista's enormous power cost deferrals during this time frame was its decision to lock in forward prices shortly before the market's rapid price decline. This was, to say the least, an unfortunate choice. As the Response to Production Requests 3.7 and 3.8 shows, Avista's purchased power costs during the last half of 2001 were uniformly 150% to 300% of the prevailing market prices. The result is that Avista, and its customers, were whipsawed both coming and going. During the last year, Avista's ratepayers have been

paying a substantial surcharge because Avista made what proved to be an enormously expensive mistake by choosing to rely on spot market purchases to cover resource deficiencies. Then, with almost perfect mistiming, Avista reversed course and locked in forward prices just before market prices began a precipitous decline.

At this juncture, Potlatch does not have all the facts that would be required to determine whether Avista's actions were prudent or not. But the Commission likewise does not have the evidence to make a determination on this issue. This is but one of several reasons why Potlatch believes evidentiary hearings are both necessary and appropriate.

**2. Avista's deferred thermal fuel expenses are not the result of high market prices.**

Avista's natural gas fuel purchases constitute an almost perfect parallel to its poorly timed electricity purchases. Once again, Avista justifies its high level of increased thermal fuel expenses as "...due primarily to higher natural gas prices..." Norwood Direct at P. 4, L.14. But as the attached Response to Potlatch Production Request No. 4 shows, the real reason for the inordinate thermal fuel deferrals was Avista's decision to lock in forward gas prices at or near the market peak. The result was monthly natural gas costs far above market levels that prevailed during the deferral period. In the most extreme case (February 2002), Avista paid more than 500% of prevailing market prices for natural gas fuel for its generators. Avista Response to Potlatch Production Request No. 4.

**3. Avista's losses from hedging comprise more than 25% of the PCA request.**

Avista's Application also seeks \$11.75 million in costs for what it terms "Net Fuel Expense not included in Account 547". This expense is for natural gas purchases intended for use in generating electricity, but not actually used for generation and thereafter resold into the open market. For the test period, this natural gas was resold at an enormous loss equal to more

than 40% of the original purchase price. See Avista Response to Potlatch Production Request No. 3.4 (attached). On its face, this huge purchasing mistake cries out for a prudence investigation. But there are additional considerations that make the case for a full evidentiary review even more compelling.

Pending additional discovery, it appears to Potlatch that Avista's losses on unused fuel purchases were aggravated by two factors. First, the natural gas supplies in question appear to have been purchased not at prevailing or market-indexed prices, but instead at much higher hedged prices. Second, Avista's confidential work papers indicate that a substantial amount of this excess gas was purchased ahead of time (and at the worst possible time) not for supply, but in order to secure the financing of the Coyote Springs 2 plant. Potlatch is unable at this time to determine whether the subsequent sale of a portion of Coyote Springs 2 also required the acquiring party to assume the losses on the hedged Coyote Springs 2 gas supplies.

Under these circumstances, ratepayers should not be saddled with the cost of this failed hedge strategy without a complete examination of all the relevant facts. While Potlatch acknowledges that purchasing practices and policies will at times outperform straightforward market purchases and, conversely, will at times under perform market purchases, Potlatch is not aware of any precedent for an attempt to recover hedging losses of this magnitude in a PCA proceeding and without a prudence review.

**4. Avista's Application requests a PCA recovery of capital costs for both failed and completed generating projects.**

Perhaps the most audacious aspect of Avista's Application is the attempt to recover both the fixed cost of both failed and completed small generation facilities. This is clearly improper on any number of grounds. In the first place, the attempt to recover nearly

\$750,000 in net turbine costs for the cancelled Othello project is objectionable because the turbine is obviously not used and useful in the service of Idaho ratepayers. In addition, Avista proposes to recover “lease payments, maintenance agreement payments, and incremental, non-labor, installation costs for Devil’s Gap and Kettle Falls Bi-Fuel.” Avista Response to Potlatch Production Request No. 11.2 (attached). As the Commission has recently reaffirmed in a recent Idaho Power case, such costs cannot be deferred for PCA recovery, whether or not prudently incurred. *See Application of Idaho Power Company for an Accounting Order Authorizing Deferral of Facility Charges Relating to the Mountain Home Natural Gas Facility*, Case No. IPC-E-02-7, Order No. 29100 (September 10, 2002) (copy attached). Such plant costs must be recovered, if at all, in a general rate case. *Id.* at 5-6.

At this juncture, Potlatch cannot determine the exact amount of capital costs included in Avista’s PCA filing, nor can it be certain that the facilities cited in this paragraph are the only instances of inappropriate capital costs in the proposed surcharge recovery. Further evidentiary proceedings will be required in order to resolve these questions.

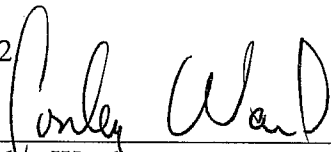
**5. Avista’s Application may allocate the cost of serving Potlatch inappropriately.**

Avista’s Application contains an unusual direct assignment to the Idaho jurisdiction of the cost of serving Potlatch. If Avista directly assigned a pro rata share of the system cost of service to Potlatch to the Idaho jurisdiction, then the assignment appears to be proper. If, on the other hand, Avista assigned anything other than a pro rata share of system costs, then the assignment is improper and potentially detrimental to Idaho ratepayers. Without further proceedings, Potlatch cannot determine whether this assignment is proper or not.

## SUMMARY

Potlatch's enumeration of issues raised by Avista's Application is not necessarily exhaustive. It should, however, be more than sufficient to convince the Commission that evidentiary proceedings are necessary. Pending completion of such proceedings, Potlatch requests that the Commission either (1) deny Avista's request for continuation of the PCA surcharge, or (2) limit a refundable recovery to the PCA amounts that would have been incurred had Avista made its electric and natural gas purchases at actual contemporaneous wholesale market prices, as measured by prices at Mid-C and at Sumas, Washington.

DATED this 20<sup>th</sup> day of September 2002

  
\_\_\_\_\_  
Conley Ward  
GIVENS PURSLEY LLP  
Attorneys for Potlatch Corporation

CERTIFICATE OF SERVICE

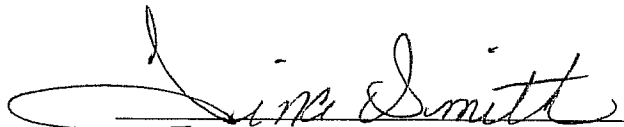
I HEREBY CERTIFY that on the 20<sup>th</sup> day of September 2002, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Jean Jewell  
Idaho Public Utilities Commission  
472 W. Washington Street  
P.O. Box 83720  
Boise, ID 83720-0074  
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Deputy Attorney General  
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Tina Smith

Avista Corp.

Average Power Purchase Prices, Mid C Index Prices

Account 555 Purchased Power  
\$/MWh

Month	\$	MWh	\$/MWh
July 2001	\$ 82,522,151	861,319	\$ 95.81
August 2001	\$ 48,611,077	728,856	\$ 66.70
September 2001	\$ 49,592,148	684,104	\$ 72.49
October 2001	\$ 20,822,555	517,239	\$ 40.26
November 2001	\$ 22,741,400	617,987	\$ 36.80
December 2001	\$ 25,334,533	687,157	\$ 36.87
January 2002	\$ 11,227,846	470,728	\$ 23.85
February 2002	\$ 8,611,276	359,447	\$ 23.96
March 2002	\$ 9,829,113	371,732	\$ 26.44
April 2002	\$ 5,004,424	249,123	\$ 20.09
May 2002	\$ 2,970,719	185,789	\$ 15.99
June 2002	\$ 4,077,082	328,351	\$ 12.42

Dow Jones Mid C Index  
Firm On-Peak and Firm Off-Peak\*

Month	On-Peak	Off-Peak
July 2001	\$ 60.607	\$ 39.902
August 2001	\$ 45.493	\$ 29.582
September 2001	\$ 24.106	\$ 20.257
October 2001	\$ 25.997	\$ 21.169
November 2001	\$ 23.444	\$ 20.014
December 2001	\$ 25.763	\$ 21.229
January 2002	\$ 19.531	\$ 17.039
February 2002	\$ 20.804	\$ 19.217
March 2002	\$ 35.505	\$ 31.922
April 2002	\$ 21.036	\$ 16.200
May 2002	\$ 21.126	\$ 14.997
June 2002	\$ 9.374	\$ 4.182

Notes:

\*The daily On-Peak Index, as reported by the Dow Jones Company, represents a weighted average of daily market transactions at the Mid-Columbia location for the hours 6AM through 10PM each day. The daily Off-Peak Index represents a weighted average of daily transactions for the remaining hours of each day.

It is not appropriate to compare the average purchase price to the actual Mid-C index prices. The appropriate comparison is the market prices at the time the purchase decisions were made.



**Avista Corp.**  
**Natural gas used for generation, and Sumas prices.**

	Average Price of Gas Used for Generation \$/Dth	Platts Gas Daily Monthly Index Sumas \$/Dth	Monthly Average of Daily Pricing Sumas \$/Dth
Jul-01	\$4.29	\$2.67	\$2.29
Aug-01	\$4.62	\$2.42	\$2.49
Sep-01	\$4.41	\$2.17	\$1.68
Oct-01	\$4.73	\$1.37	\$2.08
Nov-01	\$4.86	\$2.76	\$2.13
Dec-01	\$4.09	\$2.67	\$2.40
Jan-02	\$6.70	\$2.52	\$2.05
Feb-02	\$10.87	\$1.87	\$2.05
Mar-02	\$4.46	\$2.13	\$2.90
Apr-02	\$1.56	\$3.15	\$2.91
May-02	\$8.28	\$2.82	\$2.69
Jun-02	\$9.33	\$2.42	\$2.03

Note: Average price of gas used for generation includes transportation, use tax and prior period adjustments

It is not appropriate to compare the price of purchased gas to historical index and daily prices. The appropriate comparison is to compare the purchase price to the market prices at the time the purchase was made.

**AVISTA CORP**  
**Net Fuel Expense Not Included in Account 547**  
**Purchase expense and sale revenue by sub-account**  
**Potlatch Data Request No. 3.4**

		Account 557.15			Account 456.15			Total 456.15		Avg Sale Price
Dth	Prior Period Adj	Total	Purchase Price	Dth	Prior Period Adj	Total	Avg Sale Price			
01-Jul	\$0	\$1,400,420.00	\$4.65	301000	-\$30,354	-\$657,050.00		-\$687,404.15	-\$2.28	
01-Aug	\$0	\$4,921,195.00	\$5.26	935000	\$500	-\$2,275,600.00		-\$2,275,100.00	-\$2.43	
01-Sep	\$0	\$4,663,358.86	\$5.31	878667	\$23,644	-\$1,382,083.02		-\$1,358,438.57	-\$1.55	
01-Oct	\$0	\$4,123,986.66	\$5.45	756982	\$32,390	-\$1,558,987.68		-\$1,526,597.87	-\$2.02	
01-Nov	-\$129,585	\$14,181,575.70	\$6.25	2269740	\$40,437	-\$5,751,712.84		-\$5,711,275.99	-\$2.52	
01-Dec	\$2,636,041	\$12,764,588.16	\$5.63	2267090	-\$59,697	-\$5,776,736.05		-\$5,836,432.68	-\$2.57	
02-Jan	-\$2,277,064	\$1,982,998.94	\$2.33	851909	-\$1,058	-\$1,882,446.66		-\$1,883,504.66	-\$2.21	
02-Feb	\$379,781	\$4,451,348.39	\$5.75	774747	-\$62,997	-\$1,643,061.42		-\$1,706,057.95	-\$2.20	
02-Mar	-\$54,971	\$4,197,367.37	\$5.00	839398	-\$66,127	-\$2,116,134.05		-\$2,182,260.88	-\$2.60	
02-Apr	\$187	\$4,573,465.34	\$5.45	839463	\$40,088	-\$2,075,611.77		-\$2,035,523.37	-\$2.42	
02-May	\$0	\$4,718,710.98	\$5.36	880098	-\$3	-\$2,030,950.12		-\$2,030,953.27	-\$2.31	
02-Jun	\$19,525	\$8,367,038.76	\$5.85	1429740	-\$3	-\$3,748,800.30		-\$3,748,802.81	-\$2.62	
	\$573,914.20	\$70,346,054.16	\$5.40	13023834	-\$83,178.29	-\$30,899,173.91		-\$30,982,352.20	-\$2.38	

Account 557.15 - Account 456.15

\$39,363,701.96

Idaho Allocation (33.18%)

\$13,060,876.31

Notes: Beginning January 2002 a single system average price of all gas purchases was used to value resold gas, and gas burned. Prior to January 2002, purchases were directly assigned to plants for gas used for generation.

**AVISTA CORPORATION  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Idaho	DATE PREPARED:	9/16/02
CASE NO:	AVU-E-02-6	WITNESS:	Norwood
REQUESTER:	Potlatch	RESPONDER:	Linda Donley
TYPE:	Data Request	DEPT:	Energy Resources
REQUEST NO:	11	TELEPHONE:	(509) 495-4703

**REQUEST:**

Regarding the projects described on pages 15-19 of Mr. Norwood's direct testimony, respond to each of the following:

1. Provide a detailed explanation and calculation of the total cost recovery requested for each of the projects.
2. Specify the total costs for each project in request 11 above, and explain how much of each of the costs are fixed and how much are variable.
3. List the monthly output and the costs expended per month for each project during the period July 2001-June 2002.

**RESPONSE:**

1. Please see attached worksheets detailing the costs of the small generation projects included in the PCA. No non-fuel costs for the Boulder Park plant are included in the PCA. The Spokane Industrial Park, and Small Butte Power projects were cancelled before construction began, and no costs were included in the PCA. The Othello project was cancelled and the PCA includes the markdown of the value of the turbine purchased for the project.
2. Costs included in the PCA are lease payments, maintenance agreement payments, and incremental, non-labor, installation costs for Devil's Gap and Kettle Falls Bi-Fuel. These costs are fixed costs. The fuel expense for the Kettle Falls Bi-Fuel project is included in the PCA in account 547, fuel consumed for generation. The fuel expense is a variable cost.
3. Please see worksheets provided in response to Data Request 11.1.

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
IDAHO POWER COMPANY FOR AN ) CASE NO. IPC-E-02-7  
ACCOUNTING ORDER AUTHORIZING )  
DEFERRAL OF FACILITY CHARGES )  
RELATING TO THE MOUNTAIN HOME ) ORDER NO. 29100  
NATURAL GAS FACILITY. )**

On June 3, 2002, Idaho Power Company applied for an accounting order authorizing Idaho Power to defer facility charges relating to the Mountain Home natural gas facility. On May 13, 2002, the Commission disallowed recovery of the Williams Facility Charge Adjustment as a Purchase Cost Adjustment (PCA) expense in Case Nos. IPC-E-02-2 and -3. Order No. 29026. On June 21, 2002, the Commission issued the Notice of Application and Notice of Modified Procedure and established a written comment deadline. Order No. 29060. Commission Staff was the only party to file comments, to which Idaho Power responded on July 22, 2002.

**BACKGROUND**

On May 13, 2002, the Commission disallowed recovery of the Williams Facility Charge Adjustment as a PCA expense in Case Nos. IPC-E-02-2 and -3. Order No. 29026. In relevant part, the Commission stated:

4. Williams Facility Charge Adjustment. Williams Gas Pipeline West (Williams) charged Idaho Power the first annual billing for payment of \$419,054 to install a meter station, control equipment, and a 4,200 foot pipeline from the mainline to Idaho Power's Mountain Home natural gas facility. A fluctuating annual facility charge will pay for these items over the next 30 years. Staff argued that this charge is more like a capital cost than an annual gas delivery expense. Thus, it would be more appropriate to seek recovery of this amount as a capital asset cost in ratebase than to be recovered through the PCA. Tr. at 427-28. The Company indicated that because it is booked to a PCA-appropriate account, is fuel-related, and varies year to year, the facilities charge is appropriate for inclusion in the PCA. Tr. at 561.

Commission Findings. The Commission finds that although the facilities charge is not a capital expense per se, it has many of the characteristics of a capital expense normally recovered as an asset in rate base. The charge pays for plant investment over time and includes expenses related to depreciation, interest, a return and maintenance on the plant investment. Although this charge enables

Idaho Power to buy fuel from Williams, the repayment structure over 30 years is typical of a capital investment. Thus, the facilities charge should be considered for recovery in Idaho Power's next rate case – not in this PCA case. The \$419,054 shall not be recovered through the PCA.

Order No. 29026 at 12.

Idaho Power's Application proposed accounting and ratemaking treatment for the annual billings of facility charges associated with the Company's Danskin generation facility. Specifically, the Company wished to defer with interest the Williams facility charges incurred during the years 2001 and 2002 to install equipment and pipeline to the Mountain Home natural gas facility to Account 182.3 (Regulatory Assets). This amount would be amortized as a non-PCA related cost over a 10-year period commencing January 2003. The facility charges incurred by the Company for the year 2003 would be amortized over a 10-year period commencing January 2004. At the next general rate case, the Company's facilities charge incurred in the future would be treated in the same manner as depreciation, i.e., the average annual amount of the facilities charge would be a non-PCA expense during the operating life the of the Danskin generation facility. Application at 3.

#### STAFF COMMENTS

Staff comments, filed on July 11, 2002, first pointed out that the Commission found "the facilities charge *should be considered* for recovery in Idaho Power's next rate case – not in this PCA case. The \$419,054 shall not be recovered through the PCA." Order No. 29026 at 12 (emphasis added by Staff Comments). Staff thus argued the Commission did not find that the \$419,054 expense incurred in 2001 should be recovered in the next rate case. Staff Comments at 2. Instead, Staff believes the Commission found only that the facility charge was the type of charge to be considered as a test-year expense in a rate case and should be reviewed at that time. *Id.*

Second, Staff maintained that the facility charge arrangement has many of the characteristics of a capital lease even though it is not specifically called a "capital lease." *Id.* According to the Financial Accounting Standards Board (FASB) Statement No. 13, a payment arrangement must meet at least one of four requirements to be considered a capital lease. Staff asserted that the Idaho Power/Williams arrangement meets two. *Id.* at 3. First, facility payments will be paid over the life of the pipeline. The gas plant has a projected life of 30 years and the pipeline lease is for 30 years. Once the plant ceases functioning, the pipeline will be of no value. Second, the net present value of the payments is more than 90% of the value of the pipeline. Staff

believes that either of those characteristics qualifies the pipeline payment arrangement to be treated as a capital lease. *Id.*

According to Staff, the accounting profession has a specific method to account for capital leases. *FASB Statement No. 13 as Amended* states that a capital lease should be accounted for in the following manner:

1. The Company records an asset equal to the lower of the fair market value of the leased property (approximately \$1.9 million) or the sum of the present value of all the payments.
2. The Company establishes a liability equal to the asset.
3. The asset is amortized over the life of the lease down to the residual value as the portion of the annual payment that pays for the capital costs reduces the value of the asset and the liability.
4. The remaining portion of the payment should be expensed just as the depreciation, maintenance and other charges reimbursed to Williams through the facility charges would have been expensed if Idaho Power had built the pipeline.

*Id.* Staff further explained that the facility charge includes the amount to be amortized and an interest/expense component that should be expensed like all other expenses. If the capital lease asset is allowed in rate base as proposed by Staff, Idaho Power would earn a return on the unamortized portion of the pipeline asset while also recovering interest and amortization charges paid to Williams in rates (after the amount has been approved by the Commission in a general rate case.) *Id.*

Another accounting treatment acceptable to Staff would be for the Company to continue expensing the facility charge as it occurs and in the next rate case propose to recover the average annual amount of the charge as a non-PCA expense. *Id.* This expense would be included in base rates during the operating life of the Mountain Home generation facility and adjusted, as needed in future rate cases. Staff suggested that this alternative would impact the income statement only; the balance sheet would not show an asset offset with a corresponding liability. *Id.*

Accordingly, Staff recommended that the Commission not allow the Company to defer the facility charge as a regulatory asset because such a treatment "is not consistent with past Commission actions or proper regulatory accounting practices." *Id.* Staff insisted that the facility charge is a normal operating expense or a capital lease that should be considered in the Company's

next rate case. However, if the Commission does allow Idaho Power to classify the facility charge as a regulatory asset, Staff recommended the Commission order the Company to begin amortization over the 10-year period beginning immediately after the expense occurs, not a year or more later. *Id.* If the deferral and amortization are approved, Staff stated that the Company would recover at least a portion of actual expenses that the Commission currently does not allow the Company to recover at all. *Id.* It is Staff's belief that the recovery of these costs and the resulting associated earnings will sufficiently compensate the Company without authorizing interest as well. Therefore, any deferral allowed should not accrue interest charges. *Id.*

#### IDAHO POWER REPLY COMMENTS

In its reply comments filed on July 22, 2002, Idaho Power argued that it should be permitted to defer with interest the 2001 and 2002 facilities charge as a regulatory asset because the year 2001 had expired and by the time an order is issued in this proceeding, it would be the latter part of 2002. Reply Comments at 5. If the Company amortized the 2001-2002 expenses over a 10-year period commencing January 1, 2003 as a non-PCA related cost as proposed, the facilities charge expenditures incurred prior to the next revenue requirement case would be deferred with the amortization of the expenses commencing January 1 of the following year. *Id.* According to Idaho Power, this would have "the effect of levelizing the expenditures and allows the Company to recover the unamortized portion of the expenditures over a period of time." *Id.*

Idaho Power found "Staff's interpretation that the Commission's Order denying recovery of the facilities charge as a PCA recovery was a determination that the Company should absorb the facilities charge as an expense until the next general requirement proceeding to be unreasonable." *Id.* at 3. Idaho Power stated that the Order authorizing the Mountain Home Project issued in Case No. IPC-E-01-12 approved inclusion of the Mountain Home Station's cost of fuel and fuel transport for recovery through the PCA mechanism. *Id.* Although the Commission in its judgment disallowed those costs for inclusion in the PCA, Idaho Power argued that "the Commission did not rule that those costs should be absorbed by Idaho Power and not recovered as a reasonable and legitimate cost." *Id.* at 4 (emphasis in Reply Comments).

According to the Company, Staff's proposal would force Idaho Power to absorb the facilities charge – a required expense to provide for the transportation/delivery of fuel - as an expense to the Mountain Home facility. Idaho Power finds this "tantamount to disallowing the

facilities charge as a recoverable expense until the new revenue requirement case.” *Id.* Instead, the Company stated that deferring the recovery of this expense until the next revenue requirement case accomplishes the Commission’s desire without placing the cost burden solely on Idaho Power. *Id.*

Under its own interpretation of accounting principles, Idaho Power disagreed with Staff’s attempt to compare the facilities charge arrangement to a capital lease. The Company argued that the facilities charge is a charge by the pipeline company to Idaho Power, much like the facilities charges that Idaho Power imposes on its customers when special facilities are required. *Id.* The underlying agreement between the pipeline company and Idaho Power is for services and does not transfer the right to use the property, plant or equipment. In short, the special facilities charge is merely a charge imposed on a customer (Idaho Power) for services requested by the customer and provided by the utility (the pipeline company). Thus, Idaho Power argued that this arrangement is not a capital lease but a contract for services. *Id.* at 5.

In sum, Idaho Power believes Staff’s recommendation is unfair in that the Company would be forced to absorb the facilities charge as a fuel delivery/transportation expense without the recovery it believes was previously authorized in Order No. 29026. *Id.*

#### COMMISSION FINDINGS

Having reviewed the comments in this matter, we find it is reasonable to deny the Company’s request for the reasons set forth below.

While Order No. 28773 in Case No. IPC-E-01-12 approved inclusion of the Mountain Home plant’s cost of fuel, fuel storage and fuel transport in the PCA mechanism, it did not authorize the \$419,054 annual facility charge for plant investment to be passed through the PCA as well. The variable cost of fuel transportation (i.e., the right to use the pipeline) is a charge separately recovered in the PCA based on a tariff rate set by the Federal Energy Regulatory Commission (FERC); it is not included in the \$419,054 facility charge that reimburses Williams for installing the physical pipe and facilities.

The Company argues that the facility charge paid to Williams is merely a charge for a service presently provided to Idaho Power. However, this argument ignores the fact that the “service charge” actually pays for capital plant rather than the cost of transportation capacity to move the gas. As we previously indicated in Order No. 29026, the facilities charge has many of the characteristics of a capital expense normally recovered as an asset in rate base. Capital expenditures and associated



expenses that do not vary with plant output are properly recovered in base rates following a rate case. Had Idaho Power installed a meter station, control equipment and the 4,200 foot pipeline from the Williams mainline to the Danskin facility on its own rather than entering into this contract with Williams, the costs comprising the "facility charge" would have been captured as plant investment and related operating expenses. These costs would not be subject to recovery prior to rates becoming effective following a rate case. The PCA was intended to allow utilities to timely recover variable power supply costs, not immediately recover usage costs or rental of capital facilities in an effort to avoid building plant infrastructure that would otherwise be recovered in a rate case at a later date.

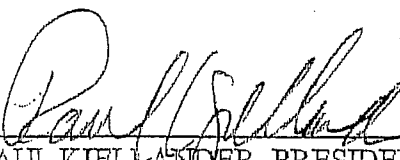
The Commission has no preference as to whether Idaho Power constructs prudent plant investment itself or contracts with a third party like Williams to install the necessary equipment. Therefore, the applicable accounting treatment should be indifferent as well. To avoid offering utilities an incentive to deviate from normal accounting and ratemaking procedures by deferring plant investment for recovery through the use of a third-party contractor, the Commission finds that past and future Williams facilities charges shall not be deferred for recovery.

#### ORDER

IT IS HEREBY ORDERED that Idaho Power Company's Application for an accounting order authorizing Idaho Power to defer facility charges relating to the Mountain Home natural gas facility is denied as set forth above.

THIS IS A FINAL ORDER. Any person interested in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-02-7 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-02-7. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

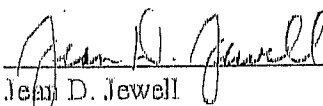
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 10<sup>th</sup>  
day of September 2002.

  
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PAUL KJELLANDER, PRESIDENT

  
\_\_\_\_\_  
MARSHA H. SMITH, COMMISSIONER

  
\_\_\_\_\_  
DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
\_\_\_\_\_  
Jean D. Jewell  
Commission Secretary

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