

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
IDAHO POWER COMPANY FOR AN) CASE NO. IPC-E-01-41
ACCOUNTING ORDER AUTHORIZING)
IDAHO POWER TO DEFER THE)
EXTRAORDINARY COSTS ASSOCIATED)
WITH INCREASED SECURITY MEASURES)
IMPLEMENTED ON COMPANY PROPERTY) ORDER NO. 28975
SINCE SEPTEMBER 11, 2001.)**

On November 15, 2001, Idaho Power Company filed an Application requesting the Commission issue an accounting order authorizing the Company to defer its extraordinary costs associated with increased security measures subsequent to events of September 11, 2001. On November 21, 2001, the Commission issued a Notice of Application and a Notice of Modified Procedure requesting public comment in this matter. In response to the Commission's Notices, it received eight comments from members of the public and comments from the Commission Staff. On January 4, 2002, Idaho Power filed a reply to the Staff's comments. After reviewing the comments in this matter, the Commission grants the Company's Application with conditions as explained in greater detail below.

THE APPLICATION

In its Application, Idaho Power stated that it has increased security at its facilities and retained a security consultant to advise the Company of additional security measures that may be warranted. For "obvious security reasons," the Company did not present more specific details of its increased security measures. The Company maintained that the additional or extraordinary security measures are needed to ensure the safety of its employees and to protect the Company's facilities. Idaho Power asserted that the additional "security measures implemented by the Company benefit all Idaho Power customers." App. at 2.

Idaho Power proposed that the Commission issue an accounting order allowing the Company to defer in Account 182.3 (Regulatory Assets), with interest, its "extraordinary security costs incurred since September 11, 2001." *Id.* at 3. The Company reported its normal or ordinary security costs incurred for the nine months prior to September 2001 were approximately

\$11,000 per month. The Company proposed to book and defer the extraordinary security costs over and above the \$11,000 per month threshold.

THE COMMENTS

A. Public Comments

All eight of the public comments opposed Idaho Power's request. Several commenters indicated that the request represents in essence a rate hike. In addition, several commenters argued that increasing security was a cost of doing business. As one commenter stated, the "cost of security is a cost that all businesses must endure. When you enter a place of business you are not assessed a security cost, it's their cost of doing business." Another commenter observed that if Idaho Power wants to recover its additional security costs, then it should reduce other expenses to offset the increased security expenses.

B. The Commission Staff and Company Reply

The only other person to comment was the Commission Staff. The Staff conceptually agreed that Idaho Power should be allowed to defer and subsequently recover its reasonable and prudent extraordinary security expenses. However, the Staff qualified its support with several conditions. Set out below is the Staff's comments and the Company's responses to each Staff recommendation.

1. No Automatic Recovery. Staff agreed that Idaho Power be allowed to defer its extraordinary security costs in Account 182.3 for security costs in excess of \$11,000 per month. Staff recommended that the accounting order should clearly state that booking and deferring does not constitute automatic Commission approval to subsequently recover the increased costs from ratepayers. The prudence of these costs must be demonstrated by the Company prior to recovery.

In its reply, the Company sought to clarify the Staff's comments. It responded that if it "does not have assurance that it is appropriately deferring these additional security measure costs, then it cannot defer what would otherwise be an expense to a future period. If Staff is recommending a prudence review, then the Company has no objection and recognizes that this is always within the authority of the Commission." Reply at 2.

2. Reimbursement from Other Sources. Staff recommended that Idaho Power pursue all alternative resources of reimbursement from government or other programs. Staff noted that Presidential Executive Order No. 13010 designated certain electrical facilities as critical national

infrastructure. Consequently, funding for additional protective measures for these facilities may be available from federal sources. Idaho Power said that it will endeavor to seek reimbursement from other entities, “but based upon recent pronouncements, the likelihood of such recovery is remote at best.” Reply at 3. Idaho Power agreed that any reimbursement from other programs or entities shall be shown as a reduction to the deferred balance when the reimbursement is received. *Id.*

3. Sharing Deferral Costs. Staff next proposed that the cost of additional security measures be shared between the customers and the Company’s shareholders. The sharing of costs will encourage Idaho Power to mitigate the additional security costs and provide additional incentives for the Company to spend funds wisely. Staff recommended that the deferral amounts be shared 50/50. Because the additional security will protect the assets of the Company as well as benefit all customers, the Staff recommended that other affiliates of Idaho Power should also share in these costs. Staff also recommended that the annual deferral costs should be subject to a return-on-equity earning test. The test would limit the annual deferral when Idaho Power’s earnings are greater than 11% return on equity.

The Company insisted that additional security costs represent extraordinary or unusual expenditures, which the Company could not have anticipated and which are not being recovered in its existing revenue requirement. The Company argued that the Staff’s sharing suggestion is unreasonable. Until such time as the Commission conducts its prudency review, the extraordinary costs fall “within the purview of reasonable expenditures.” *Id.* Staff submitted no precedent for its sharing recommendation and, as such, it should be rejected.

4. Carrying Charges. Staff also recommended that no carrying charges on the accrued deferred balance be allowed. The Staff argued that Idaho Power has not justified interest being accrued on this deferred balance. The Staff suggested that the opportunity to recover these costs along with the resulting improved earnings position are sufficient reasons to not grant interest on the account balances. The Company argued that pending the prudency review, the additional security expenditures are reasonable. Consequently, the Company maintained it should be entitled to earn interest on the deferred balance. “The cost of money cannot be ignored when examining or reviewing a Company expenditure.” *Id.* at 4.

5. Amortization Period. Finally, Staff suggested that the amount in the security deferral accounts be amortized. Staff suggested that the deferred expenditures through

December 31, 2001, should be amortized over a five-year period beginning in January 2002. Amounts incurred on and after January 1, 2002, should be amortized over a five-year period beginning with January following the date it is booked. Finally, Staff also recommended that Idaho Power continue to provide confidential briefings to the Staff concerning the status of the Company's extraordinary security measures and the associated costs. Staff recommended that the Company keep adequate records to document the necessity and prudence of each security measure.

The Company recommends that the Staff's amortization recommendation be modified to recognize the timing of the expenditures. The Company agrees with the five-year amortization period but proposes that the commencement of the five-year period should begin January 2003. The Company further recommends that before amortization begins, the Commission should conduct its prudence review on the security expenditures. Consequently, the Company proposes to submit its extraordinary expenses incurred prior to January 31, 2002 before the start of the proposed five-year amortization period on January 1, 2003.

FINDINGS AND DISCUSSION

Having reviewed the comments in this matter, we find it is reasonable to grant the Company's request and issue an accounting order as conditioned below. It is undeniable that events of September 11, 2001 have prompted utilities and other entities to institute or enhance security measures to safeguard their facilities. Although we agree with the public comments that increasing security is "a cost of doing business," utilities are normally allowed to recover their reasonable expenses in providing utility service to the public.

Although the Staff recommended that the Commission issue an accounting order creating the deferral mechanism, the Staff did qualify its recommendation with several conditions. We now turn to those conditions.

1. The Account and Amortization. The Company and Staff are in agreement that once the extraordinary expenditures are booked as deferrals, the prudence of such extraordinary security costs must be demonstrated by the Company prior to recovering these costs. We agree. As we noted in Order No. 28900 in this matter, the "reasonableness of such deferred expenditures will be subject to Commission review before the Company is allowed to recover" the deferred expenses. We further find that it is appropriate to book these deferred expenses in Account No. 182.3.

The Company and the Staff also agree that the deferred expenditures should be amortized over a five-year period but recommended different start dates. The Staff recommended beginning the five-year amortization period on January 1, 2002, while the Company proposed a start date for amortization of January 1, 2003. We adopt the Company's proposal that those extraordinary security expenses incurred prior to January 1, 2002 be amortized beginning January 1, 2003. Costs incurred in each subsequent year shall begin to be amortized on January 1st of the next calendar year (e.g., 2002 costs (from January 2, 2002 to December 31, 2002) will begin to be amortized on January 1, 2003). The Company is instructed to keep adequate records to document the necessity and prudence of its extraordinary security measures.

2. Carrying Charges. Staff next recommended that the Company receive no carrying charges on the accrued deferral balances to be allowed. For its part, the Company maintained that it should be entitled to earn interest on the deferred account balance. We find it reasonable that Idaho Power earn interest on the deferred balance at the rate authorized for customer deposits pursuant to the Utility Customer Relations Rule 106.02, IDAPA 31.21.01.106.02.

3. Sharing and Allocation. There is strong disagreement between the Staff and the Company about the Staff's proposals regarding sharing and allocations. The Staff suggested that the deferred amounts be shared 50/50 between ratepayers and shareholders. The Staff also recommended that when Idaho Power's return on equity is greater than 11%, the Company not be allowed to defer its extraordinary security costs. Finally, the Staff proposed that Idaho Power's other affiliates share in the costs of protecting the assets used by its various affiliates. In its reply, the Company argued that the additional security costs represent extraordinary and unusual expenses to which it should be entitled to recover after the Commission conducts its prudence review. The Company urged the Commission to reject the Staff's sharing recommendations.

We believe the arguments of both parties have merit. In particular, we believe that it is appropriate that affiliates of Idaho Power be allocated their fair share of these extraordinary security costs.¹ While we have no quarrel with the Company's argument that the security

¹ We recognize it is normal accounting practice for Idaho Power to allocate a portion of its system costs to the other jurisdictions (federal and state).

measures benefit all Idaho Power customers, the same can be said for shareholders and unregulated affiliates of the Company. We find it is appropriate to allocate some of the extraordinary security measures to IdaCorp Energy and other affiliates that utilize the Idaho Power system. For example, the extraordinary security costs associated with the transmission of power, the sale of energy to wholesale customers, or transactions with affiliates should be allocated or shared among those entities that benefit from the enhanced security measures.

We also note that the Federal Energy Regulatory Commission (FERC) has issued a policy statement (Docket No. PL01-6-000) regarding extraordinary expenditures necessary to safeguard national energy facilities. *See* 96 FERC ¶ 61,299 (2001). In that docket, FERC recognized that utilities may be required to undertake additional security measures to safeguard their systems. FERC assured utilities that “it would give its highest priority to processing any filing made for the recovery of such expenditures.” 67 Fed. Reg. 3,129, n.2 (January 23, 2002). Thus, FERC has recognized that the Company’s services subject to its jurisdiction should be responsible for paying for additional security costs. Consequently, Idaho Power may seek recovery of some of these costs through the FERC process.

We next turn to the Staff’s sharing and equity cap proposals. Consistent with our findings above, we believe it is appropriate to allocate the deferred expenses. However, we have not been advised about the magnitude of the expenses to be deferred. For purposes of recording the deferrals, it is not necessary at this time to address the merits of Staff’s sharing proposal. Consequently, we defer making a final decision on the reasonableness of the Staff’s suggestion regarding the sharing of costs between shareholders and ratepayers. A decision regarding the sharing or allocation of these expenses shall coincide with the Commission’s future prudence review of the expenses to be recovered from ratepayers. When the Company seeks to recover these deferred security costs we shall determine whether the costs of specific security measures benefit assets used to serve ratepayers or unregulated affiliates. Finally, we reject the Staff’s proposal to limit deferrals in instances where the Company’s return on equity is greater than 11%.

ORDER

IT IS THEREFORE ORDERED that Idaho Power Company’s request for an accounting order to defer extraordinary costs associated with the increased security measures is granted as conditioned above.

IT IS FURTHER ORDERED that the Company defer its extraordinary security costs in excess of \$11,000 per month in Account 182.3 (regulatory assets).

IT IS FURTHER ORDERED that deferred extraordinary security costs in this account accrued before January 1, 2002, be amortized over a five-year period beginning January 1, 2003. Costs deferred in each subsequent year shall be amortized beginning January 1st of the next calendar year.

IT IS FURTHER ORDERED that these deferred costs receive a carrying charge in an annual amount established in Rule 106.02, IDAPA 31.21.01.106.02.

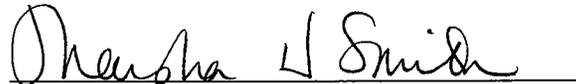
IT IS FURTHER ORDERED that the deferred extraordinary security costs be allocated among the Company's various jurisdictions and affiliates. The Commission specifically defers making a final decision regarding the final allocation of deferred security expenses to other affiliates and sharing with shareholders until such time as the Commission conducts its prudence review of the expenses.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-01-41 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-01-41. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

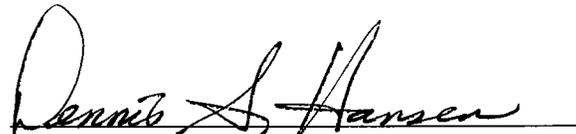
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 27th
day of March 2002.



PAUL KJELLANDER, PRESIDENT

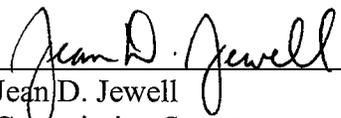


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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