

ITEM NO. CA7

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT**

**PUBLIC MEETING DATE: December 1, 2015**

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: November 12, 2015

TO: Public Utility Commission

FROM: Linnea Wittekind *LW*

THROUGH: *J* Jason Eisdorfer and *A* Marc Hellman

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1741) Requests authorization to defer costs associated with a Long Term Program Contract with Siemens Energy, Inc.

**STAFF RECOMMENDATION:**

Staff recommends that Idaho Power Company's (Idaho Power or Company) request for authorization to defer costs associated with a Long Term Contract with Siemens Energy, Inc. be approved subject to the following condition:

As part of this deferral, Idaho Power shall keep records that separately show the return earned on the net book value of spare parts transferred to Siemens that are currently not in Idaho Power's rate base and the return earned on the spare parts transferred to Siemens that are currently included in rate base.

**ISSUE:** Idaho Power seeks authorization to defer costs associated with a Long Term Program Contract with Siemens Energy, Inc.

**STANDARD OF REVIEW:**

Under ORS 757.259 a utility may defer for later inclusion in rates "[i]dentifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers." In this memorandum, Staff addresses whether Idaho Power's request to defer costs associated with a long-term contract meets this standard. Staff also addresses whether Idaho Power's application satisfies the procedural requirements in OAR 860-027-0300.

## **ANALYSIS:**

On June 5, 2015, Idaho Power Company (Idaho Power or Company) filed a request seeking an order approving the Company's proposed accounting treatment for costs associated with a Long Term Program (LTP) Contract with Siemens Energy, Inc. (Siemens).

Concurrent with this Application, Idaho Power is requesting approval of the LTP Contract and the transfer and sale of certain assets to Siemens in Docket No. UP 326. Under the LTP Contract, Siemens will provide maintenance at all three of the Company's natural gas-fired facilities including scheduled maintenance of the combustion turbines, comprising of program parts or repairs, shipping, services, labor, engineering and program management.

With the LTP Contract, the Company has no need for its current inventory of gas plant spare parts (referred to as "initial spare parts"); Siemens will provide all parts necessary for maintenance and repair of Idaho Power's gas fleet. Under the terms of the LTP Contract, Siemens will take title to Idaho Power's inventory of initial spare parts for each combustion turbine and is expected to remove them from Idaho Power's facilities soon after approval of the LTP Contract in Docket No. UP 326.

### Reason for Deferral

According to the Company, the financial impact the first year is considerable, primarily attributable to the initiation fees and net tax expense. The initiation fees serve as a prepayment toward services that will be performed by Siemens over the life of the agreement. Because the expense is for work performed throughout the duration of the contract, Idaho Power is proposing to establish the initiation fees as a regulatory asset and amortize that balance, on a straight line basis, over the length of the contract. Amortizing the initiation fees matches the costs borne by ratepayers to the benefits received by ratepayers.

### Description of Expense

Staff has reviewed the actual amount of initiation fees, they are however, confidential and are not disclosed in this memo. Idaho Power plans to allocate initiation fees, which it proposes to treat as a regulatory asset, to Oregon consistent with Idaho Power's multistate allocations.

The pricing structure under the LTP Contract involves per unit initiation fees combined with periodic milestone amounts due at or near the actual outage events. Siemens agreed to take back ownership of the initial spare parts in exchange for reduced

contract pricing. The reduction is based on the net book value of those parts. According to the Company, the transfer and sale of the initial spare parts to Siemens will result in lower overall costs to Idaho Power and its customers.

Idaho Power requests approval of the following:

1. The deferral of the initiation fees to a regulatory asset;
2. The transfer of the net book value of the initial spare parts and associated net tax expense to a regulatory asset, and;
3. A carrying charge on a portion of the regulatory asset balance.

#### Proposed Accounting

The Company is requesting to transfer to a regulatory asset the unrecovered portion, or net book value, of \$1.0 million on an Oregon jurisdictional basis in initial spare parts subject to true-up at closing.

For the initiation fees, the Company is proposing to record the deferred initiation fee amounts to Federal Energy Regulatory Commission (FERC) Account 182.3 – Other Regulatory Assets. The Company will record amortization of the deferred amounts to FERC Account 407.3 – Regulatory Debits.

The Company also proposes to include in the regulatory asset the deferred taxes that result from the transfer and sale of the initial spare parts. The transfer and sale of the initial spare parts to Siemens will create a net tax expense of approximately \$80,000 on an Oregon allocated basis. Idaho Power is proposing to amortize both amounts on a straight-line basis over the length of the contract commencing upon the execution of the LTP Contract.

For the initial spare parts, the Company proposes to record the deferral of unrecovered initial spare parts amounts to FERC Account 182.3 – Other Regulatory Assets and record amortization of the deferred amounts to FERC Account 407.3 – Regulatory Debits. With regards to the net tax expense, the Company proposes to (1) record the net tax expense to FERC Account 282 – Accumulated Deferred Income Taxes (debit) and credit FERC Account 410.1 – Deferred Income Tax Expense and (2) amortize the amounts on a straight-line basis over the estimated life of the contract, or 20 years resulting in a debit to FERC Account 410.1 – Deferred Income Tax Expense and credit FERC Account 282 – Accumulated Deferred Income Taxes.

Finally, the Company proposes to accrue a carrying charge on the initiation fees, which are confidential and \$130,000 of the initial spare parts. According to the Company, the \$130,000 of the initial spare parts has not yet been included in the Company's authorized rate base and therefore the Company is not currently earning a return on the

amounts. Idaho Power is requesting to accrue a carrying charge on that amount using the Company's most recent authorized rate of return.

**CONCLUSION:**

Approval of the requested deferral allows the Company to later include the costs of the LTP Contract in rates, and the offset to the costs associated with the sale of property, over the life of the contract. Idaho Power's application for authorization of deferred accounting meets matches the costs and benefits of the contract with customer rates and meets the requirements of ORS 757.259. Idaho Power's application also meets the requirements of OARS 860-027-0300.

One concern of Staff's is that the transaction should not be a means whereby the Company is able to earn a return on plant that is not used and useful. Some of the spare parts that will be transferred to Siemens are currently included in Idaho Power's rate base and some are not. The Company is requesting that after the plant is transferred to Siemens, the Company be allowed to earn a return on the plant that is not currently in rate base. Staff is concerned that allowing the Company to recover a return on transferred parts from customers may be unlawful. Staff is also concerned about Idaho Power recovering from customers a return on the spare parts currently in rate base after they are transferred to Siemens. Therefore Staff proposes a condition to track the costs of the transferred spare parts so that Staff has the information to make a ratemaking adjustment if it is warranted when Idaho Power seeks to amortize these deferred costs into rates.

Staff recommends approval of Idaho Power's request subject to the condition stated in Staff's Recommendation.

The company has seen a draft of this memorandum and has not voiced any objections.

**PROPOSED COMMISSION MOTION:**

Idaho Power's application for authorization to defer costs associated with a Long Term Contract with Siemens Energy, Inc. be approved subject to the condition stated in Staff's Recommendation set forth in this memorandum.