

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 7, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: January 17, 2017

TO: Public Utility Commission

FROM: Scott Gibbens *sg*

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

SUBJECT: IDAHO POWER COMPANY: (Docket No. UP 347) Request for Approval of an Asset Sale to McCain Foods USA, Inc.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the sale of distribution assets by Idaho Power Company (IPC or Company) to McCain Foods USA, Inc. (McCain) subject to the following conditions:

1. Company shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
2. The final journal entry recording the transaction shall be submitted to the Commission within 60 days after the transaction closes.
3. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternate form of regulation.

DISCUSSION:

Issue

Whether the Commission should approve the sale of distribution assets located past the point of delivery (POD) following the stipulations outlined in the Asset Purchase and

Transfer of Title Agreement between IPC and McCain.

Applicable Rule or Law

ORS 757.480(1) provides that requires public utilities doing business in the Oregon to seek Commission approval prior to the sale, lease, assignment or disposal of property valued in excess of \$100,000 that is necessary or useful in the performance of its duties to the public.

OAR 860-027-0025 sets forth the information required to support a request for the approval of a property sale. OAR 860-027-0025(1)(l) requires that the applicant show that the property sale will be consistent with the public interest.

In the context of a property sale pursuant to ORS 757.480(1), the Commission has interpreted the phrase "consistent with the public interest" to require a showing of "no harm." See, e.g. *In the Matter of Portland General Electric Company*, Docket No. UP 292, Order No. 13-372 (2013).

Analysis

Idaho Power filed UP 347 on November 10, 2016. Idaho Power provides electric service to McCain's Burley, Idaho facility (Facility). Idaho Power owns transformers and other equipment (Assets) beyond the "Point of Delivery" (POD) for the sole purpose of meeting McCain's service requirements. McCain requested to purchase the Assets from IPC pursuant to the terms of the parties proposed agreement. The agreed upon sales price is \$373,974 and McCain will assume ownership, operation, maintenance, and all liabilities associated with the Assets. Idaho Power will no longer require McCain to pay a monthly facilities charge as provided in IPC's tariff Schedule 66. Both parties believe they have reached a sales price which leaves all other customers unharmed. None of the Assets are Oregon Allocated, as such Oregon customers will not receive any of the potential gain from the sale.

In determining the sale price, IPC developed a methodology which ensures its customers are not negatively impacted by the transaction. The methodology consists of the following five components that collectively establish the sale price of the Assets:

1. Net Book Value: Remaining book value based on a 31-year asset life.
2. True-up of Past Levelized Rate of Return: The difference between non-levelized revenue requirement and levelized revenue received for the facilities charge.

3. Near-term Rate of Return Impact Resulting from the Sale of Assets: The present value of three years of the levelized rate of return element of the facilities charge. Representing the opportunity cost to invest capital in rate base until the next general rate case occurs.
4. Near-term Operational Impact Resulting from the Sale of Assets: The years of foregone revenue for costs related to regulatory fees, operations and maintenance, administrative and general expenses, and working capital incurred by Idaho Power to service and maintain its distribution facilities. This component is meant to compensate IPC for the revenue requirement mismatch until it files another general rate case.
5. Net Tax Gross-up: Income tax compensation resulting from the difference between accelerated depreciation and financial accounting amounts. This amount covers all income taxes associated with the transaction.

Category	Amount
Net Book Value	\$127,054
True-up of Past Levelized ROR	\$54,865
Near-term ROR Impact from Sale of Assets	\$32,251
Near-term Operational Impact from Sale of Assets	\$57,936
Net Tax Gross-up	\$101,388
Total	\$373,494 ¹

Staff reviewed the application, transfer agreement, proposed accounting treatment and all other exhibits included in the application. Staff also spoke with the Company several times regarding the application.

The beginning point for review was to establish whether the sale of the equipment would hinder the ability of Idaho Power to provide safe and reliable power to its customers. After reviewing the filing, Staff confirmed that the equipment is located entirely on the property of McCain foods and is only utilized to serve McCain's load. As such, if the equipment was to be effectively removed from Idaho Power's distribution network, customers (save McCain Foods) would not experience a difference in the power they receive from Idaho Power.

Staff then reviewed the pricing to ensure that ratepayers were fairly compensated for the equipment they had paid for. Staff found the pricing mechanism to be fair, just, and reasonable. The Company and McCain Foods crafted a transaction that contemplated all economic costs associated with the sale of the property, not just the costs listed

¹ Final sale price includes \$480 in work order closing costs for a total of \$373,974.

under the equipment in the financial accounts. The amounts agreed upon for each component of the price are accurate representations of the costs.

In any property sale application, a major concern for Staff is the proper and fair treatment of Oregon ratepayers. In this filing, there is no direct impact or involvement of Oregon ratepayers. Distribution facilities located in Idaho are not included in the calculation of Idaho Power's Oregon revenue requirement. Idaho Power filed this application out of an abundance of caution and Staff reviewed the filing as such.

Conclusion

Staff finds that the sale of the distribution equipment from Idaho Power to McCain Foods holds all Oregon ratepayers harmless. This sale will not affect Idaho Power's ability to serve customers in a safe and reliable manner.

PROPOSED COMMISSION MOTION:

Approve the Purchase and Transfer Agreement between Idaho Power and the McCain Foods USA, Inc. subject to Staff's recommended conditions.