December 15, 2010

Technical Director  
File Reference: 1850-100  
Financial Accounting Standards Board  
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File Reference: 1850-100 Leases

Idaho Power Company respectfully submits our comments on the Financial Accounting Standards Board (FASB) Proposed Accounting Standards Update—Leases (Topic 840). Idaho Power is a shareholder-owned electric company and a member of the Edison Electric Institute (EEI), which filed a separate comment letter on behalf of its members. Idaho Power supports the EEI comment letter and is limiting this letter to areas of greatest concern and where we wish to convey additional thoughts on the proposed standard.

Responses to questions in the Exposure Draft

Question 3: Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We do not agree with the requirement to recognize assets and liabilities for short-term leases. We do not believe the requirement will provide sufficient value to the financial statement users relative to the administrative burden of capturing and tracking the large volume of small leases. Many of these leases are entered into in a decentralized manner, for example by employees with company credit cards to be used for things such as car rentals and hotel rooms. We view most short-term leases as reflecting more of a procurement function and therefore believe that non-recognition is still appropriate. We believe that short-term leases should be considered service or executory contracts and therefore excluded from the requirements of the exposure draft.

If short-term leases are not excluded from the requirements of the exposure draft, we believe the election available to the lessor to not recognize the related assets and liabilities should be available to lessees as well. Even then, we have concerns that the availability of the election on a lease-by-lease basis may still be construed as a requirement to identify and document the election for every lease, thus still creating an unnecessary administrative burden. We believe that the election, if provided, should be permitted to be made as a policy decision or to groups of leases rather than be required for each lease contract and we suggest that the final guidance should so indicate.
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Alternatively, we believe it would be preferable from an administrative standpoint to exclude short-term leases from the standard but provide an elective option to recognize assets and liabilities for those leases, rather than include short-term leases in the standard and provide an election to NOT recognize the related lease assets and liabilities.

**Question 5:** Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

We do not agree with the elimination of the grandfathering provisions of ASC 840-10-15 that were originally provided for in EITF 01-8 Determining Whether an Arrangement Contains a Lease. That guidance does not require companies to assess lease contracts entered into prior to May 28, 2003. We refer you to the comments provided by the EEI for a thorough analysis of the issue.

**Question 8:** Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We do not agree with the inclusion by lessees of renewal periods for which the lessee is not yet legally obligated. We do not believe the payments that would be due for such renewal periods meet the definition of assets or liabilities and we recommend that the lease term for measuring the lease assets and liabilities should be the minimum term to which the lessee is legally obligated under the lease agreement.

We further believe the exposure draft’s more-likely-than not criteria for both lease term and lease payments to be far too subjective and difficult to assess to be workable in practice. The approach leaves too much uncertainty and presumes a greater ability to predict the future than most entities really have. For instance, we recognize that a lease with an initial term and a renewal period represents a "right to use" the leased asset that extends through the renewal period. However, we believe that the exposure draft’s approach to recognizing that right to use leased assets is flawed because it misidentifies the asset and liability that exist prior to the exercise of the renewal option.

In a lease with a renewal option, the right to use the leased asset should be viewed as two distinctly separate rights to use with different attributes. For the initial term of the lease, the lease terms are binding on both parties. As the lease is recorded at cost, the present value of lease payments attributable only to the initial term (which excludes the incremental value added to the payments to secure the renewal option that is nonbinding on the lessee) is the consideration given to receive the right to use the asset during the initial term and represents both the cost of the asset and the initial value of the liability owed to the lessor at inception. In contrast, the renewal option secures for the lessee the right to establish a right to use the
asset under terms stipulated in the initial agreement. Similar to how a holder of a stock option, even if the option were in the money, would not recognize the underlying stock prior to exercise, we do not believe the holder of an option to renew a lease contract would recognize the lease renewal prior to exercise. Instead, we believe the lessee should recognize only the renewal option valued at the consideration given for that renewal option. This value is the incremental present value of the lease payments due if the renewal option is not exercised over the present value of lease payments that would have been in the agreement if no renewal option were included. Due, in part, to the difficulty in identifying this incremental present value, we do not believe that the "right to use" asset should be separated into an initial term and the renewal option. We do, however, believe it is important to recognize that the cost of the renewal option is already included in the lease payments made during the initial term and that no additional work is necessary to recognize the lessee's rights to the use of the leased asset in the renewal period prior to the exercise of the renewal option. Once the lessee has exercised its renewal option, it has given the lessor additional consideration at that time for the right to use the leased assets during the renewal period. This consideration is equal to the present value of the additional lease payments at the renewal date, which establishes both the cost of the additional right to use asset and the value of the additional obligation under the lease. We believe that lease payments that can be avoided by the lessee meet neither the definition of an asset nor a liability and should not be recognized until they become contractually binding on the lessee.

With respect to the payments due during the renewal term meeting the definition of a liability, we disagree with paragraph BC6(d) in the Basis for Conclusions, which asserts, "An obligation to make lease payments is a present obligation of the lessee arising from entering the lease, the settlement of which is expected to result in an outflow from the lessee of resources embodying economic benefits. It therefore meets the definition of a liability." [Emphasis added] We believe this assertion would create a slippery slope, because it replaces a narrower concept of what is contractually required by an agreement with a broader notion of what is expected to occur. In our view, a lease with a renewal period that is not binding on the lessee is no different in this respect than an agreement an entity has with a supplier that sets the pricing for an input the entity uses in production but under which the entity has already met the minimum purchase requirement. If the entity expects to make additional purchases from the supplier under the agreement it would not recognize a liability for future orders that have not yet been placed. However, the assertion quoted above would indicate that maybe it should.

If the starting point of the analysis is a liability approach and an assessment regarding whether avoidable payments made during the renewal period(s) meet the definition of a liability, we do not believe it is possible to come to a conclusion that a liability exists. If, on the other hand, the analysis starts with an attempt to recognize all of the rights held by the lessee, it is somewhat understandable to see how a conclusion could be reached that includes the payments incurred in renewal periods. We find it interesting, however, that what appears to be an effort to capture the full value of rights held by an entity would result in a detrimental financial impact as the gross up of assets and liabilities negatively affects an entity's financial ratios. If the liabilities in question actually met the definition of liabilities,
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that might be an acceptable result. However, to force the recognition of a nonexistent liability in order to capture what the Board considers to be the full value of an asset creates a counterintuitive result.

As we stated above, we believe the exposure draft misidentifies the asset in question. Until the renewal option is exercised, the lessee does not have a lease for the renewal term but has a lease option instead. The cost for this lease option is not the payments to be made during the renewal period if the option is exercised (which would be like valuing a stock option at the strike price), but is the present value of the incremental increase in lease payments for the initial term due to the presence of the nonbinding renewal option.

Our view is that the lease asset, including both the initial term and all renewal options, should be recognized at cost, which is the amount of payments contractually required without assuming the exercise of any renewal options.

Conclusion

We appreciate your consideration of this topic and our comments. The proposed changes to the accounting for leases will have a significant effect on our industry, and we would be pleased to discuss any of these matters with you and provide any additional information you may find helpful in addressing these important issues.

Very truly yours,

[Signature]

Steven R. Keen
Vice-President, Finance and Treasurer