DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: DON HOWELL

DATE: APRIL 6, 2007

SUBJECT: ROCKY MOUNTAIN'S REQUEST FOR AN ACCOUNTING ORDER RELATED TO THE FLOODING OF THE POWERDALE HYDRO FACILITY, CASE NO. PAC-E-07-04

On March 22, 2007, Rocky Mountain Power (a division of PacifiCorp) filed an Application seeking an accounting order related to the November 2006 flooding of the Powerdale generating facility. Powerdale is located in central Oregon on the Hood River, south of its confluence with the Columbia River. Rocky Mountain requests an accounting order that authorizes the Company to: (1) transfer $8.9 million in undepreciated net investment from FERC Account 101 (Electric Plant in Service) to FERC Account 182.2 (Unrecovered Plant and Regulatory Study Costs); (2) record $6.3 million in decommissioning costs to FERC Account 182.2; and (3) establish amortization periods for these amounts.

The Company asserts that the $8.9 million in Powerdale costs are currently being recovered in rates. The Company does not seek any particular rate treatment at this time and states that any incremental rate adjustments caused by approval of this Application will be addressed in the Company's next general rate case.[1]

BACKGROUND

Powerdale was constructed in 1922-1923 and includes a small diversion dam, and 3-mile water conveyance system, and a single MW powerhouse. The facility also contained a 19-pool fish lab and 5 vertical fish screens.

[1] On March 30, 2007, Rocky Mountain filed a notice pursuant to Commission Rule 122 that it intends to file for a general rate increase no sooner than 60 days and no later than 120 days.

After initiating a FERC relicensing process for Powerdale in 1995, the Company subsequently concluded that continued operation of the facility would not be economical. Consequently, the Company filed a decommissioning plan with FERC in 2003. In November 2005, FERC adopted a settlement agreement and issued a "Removal Order" for Powerdale. The Removal Order authorized Rocky Mountain to continue operating Powerdale until April 1, 2010 and provided for removal of the facilities by February 29, 2012.

In November 2006, the Powerdale generating facility was damaged by flooding and debris flow. Application at 2. Exhibit 1 to the Company's Application contains photographs showing the damage to various components of the facility. After conducting another economic analysis, the Company concluded that it is now more cost effective to retire this facility than to repair the flood damage. *Id.* at 3. On February 1, 2007, Rocky Mountain requested authorization from FERC to cease operations immediately and sought approval to initiate decommissioning actions ahead of schedule.

Based upon the substantial damage to the Powerdale facility and the change in the river channel, Rocky Mountain asserts that it is no longer economical to repair the Powerdale facilities for the remaining three years of its operating license. After comparing the total cost to repair and operate Powerdale versus the total cost to retire Powerdale, the Company has concluded that retirement "is an overall lower cost-to-customers alternative than repair/operation by approximately $1.611 million. Therefore, [Rocky Mountain] intends to retire the plant assuming the Commission approves this Petition." Application at 5; Exh. Nos. 4-5.

ACCOUNTING REQUEST

As set out above, Rocky Mountain seeks an accounting order addressing two categories of costs: (1) undepreciated investment in Powerdale plant; and (2) decommissioning costs. If approved, the Company's decision to retire Powerdale will result in the potential impairment of the physical and intangible assets in accordance with Financial Accounting Standard (FAS) No. 90, "Regulated Enterprises-Accounting for Abandonments and Disallowances of Plant Costs." The Company states that FAS 90 will require "PacifiCorp to write-off its undepreciated plant investment in the absence of the requested accounting treatment from its commissions." *Id.* at ¶ 8. Rocky Mountain proposes to account for the costs by recording the decommissioning costs and the undepreciated portion of the plant assets in FERC Account 182.2.

As of December 31, 2006, Rocky Mountain states that the unallocated net book value of the tangible and intangible plant assets equal approximately $8.9 million. The actual amount transferred to FERC Account 182.2 "will be the remaining undepreciated net book value as of the date of the transfer." *Id.* The Company indicates that it will amortize this balance at a rate equal to the depreciation rate used for FERC Account 101, or 4.2% which is currently included in rates.[2] The Company estimates that the total decommissioning cost will be approximately $6.3 million subject to final reconciliation and true-up of actual expenditures. The Company requests a three-year amortization period for the deferred decommissioning expenses upon inclusion in rates in the next rate case. "Absent Commission authority, the Company would need to recognize the decommissioning as a current period expense." *Id.* at 8.

Pursuant to Rocky Mountain's Revised Protocol,[3] hydro-related costs are initially allocated ratably to each of the six state jurisdictions served by PacifiCorp. Rocky Mountain calculates that the Idaho-allocated share of the undepreciated investment in Powerdale is approximately $557,000, and the Idaho-allocated share of the decommissioning cost is approximately $393,000. *Id.* at ¶ 11. The Company further states that

> Under the Revised Protocol allocation method, subsequent to the initial system-wide allocation, hydroelectric generation-related costs are included in the calculation of the Embedded Cost Differential, which assigns the majority of hydroelectric costs to the western side of the Company's system. In order to align cost responsibility with benefits received, the costs for which this Application seeks an order would be included in the calculation of the Embedded Cost Differential for future rate-making purposes based on the continued use of the Revised Protocol.

Application at 9.

In summary, Rocky Mountain requests that the Commission issue an accounting order authorizing the Company to transfer the remaining undepreciated net book value of the Powerdale plant to a regulatory asset account; to record the costs related to decommissioning the

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[2] The Company anticipates a change in this 4.2% rate after it files a new depreciation study in September 2007. The Company anticipates that the new depreciation rate will become effective as of January 1, 2008. The Company intends to file a three-year amortization period for the remaining balance of the unrecovered net plant balance in that study. Application at ¶ 10.

[3] The "Revised Protocol" is Rocky Mountain's inter-jurisdictional cost allocation methodology utilized in its six state service areas.

Powerdale facility to the same regulatory asset account; and establish amortization periods for these balances.

STAFF ANALYSIS

Idaho Code § 61-524 authorizes the Commission to establish a System of Accounts to be kept by public utilities. Pursuant to Accounting Rule 101, the Commission requires Rocky Mountain to conform its accounting practices to the Uniform System of Accounts as adopted by the Federal Energy Regulatory Commission. IDAPA 31.12.01.101.

The Company's Application did not request that the Application be processed under any particular method. After reviewing the Application and its supporting workpapers, Staff believes that this matter may be appropriately processed under Modified Procedure. Consequently, Staff recommends that the Commission issue a Notice of Application and a Notice of Modified Procedure to process this case.

COMMISSION DECISION

Does the Commission wish to process this matter under Modified Procedure?

Don

Don Howell

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