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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AN ACCOUNTING ORDER FOR COSTS RELATED TO THE FLOODING OF THE POWERDALE HYDRO FACILITY.	**CASE NO. PAC-E-07-4** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donald L. Howell, II, Deputy Attorney General, submits the following comments in response to Order No. 30293, the Notice of Application and Notice of Modified Procedure issued on April 10, 2007.

BACKGROUND

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 (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 the rates of each state where PacifiCorp operates. The Company does not seek any particular rate treatment at this time and maintains that any incremental rate adjustments caused by approval of this Application will be addressed in the Company's next general rate case.[1]

Powerdale was constructed in 1922-23 and includes a small diversion dam, a 3-mile water conveyance system, and a single 6 MW powerhouse. The facility also contained a 19-pool fish lab and 5 vertical fish screens.

After initiating the FERC relicensing process for Powerdale in 1995, PacifiCorp 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. Exh. 2, Parts 1-2. The Removal Order authorized PacifiCorp to continue operating Powerdale until April 1, 2010 and provided for removal of the facilities by February 29, 2012.

In November 2006, the Powerdale hydro facility was damaged by flooding and debris flow. Application at 2. Exhibit 1 to the Company's Application contains photographs showing the extensive damage to various components of the facility. In addition, the river's channel was changed by the flood. After conducting another economic analysis, the Company concluded that it is more cost effective to retire the facility now rather than repair the flood damage and operate the facility until 2010. Application 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. Exh. 3, Part 1.

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. 4-5.

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

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.

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

STAFF ANALYSIS

<u>Undepreciatied Costs of the Plant</u>

The Company's Application requests that the undepreciated net book value of the Powerdale Power Plant be transferred from its FERC 101 Account, Electric Plant in Service, to

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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. Rocky Mountain 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.

FERC Account 182.2, Unrecovered Plant and Regulatory Study Costs, as of the date the transfer is approved by the Commission. This is approximately $8.9 million dollars on a total Company basis, or $557,000 for Idaho's allocation. This asset is currently being depreciated under the approved depreciation provisions of Order No. 29265, Case No PAC-E-02-5 (Depreciation Case). The Company would continue to amortize the transferred balance for this asset at the rate approved in the Depreciation Case.

The Company anticipates filing a new depreciation study in September 2007 requesting an effective date of January 1, 2008. The Company expects to request as part of the Depreciation Case a change in the amortization rate of this asset to amortize any remaining portion of the transferred balance over three years.

Powerdale was scheduled to cease operation on April 1, 2010 pursuant to a settlement agreement between PacifiCorp, federal and Oregon stakeholder groups filed with FERC. If the Company is not allowed to transfer the undepreciated net book value of Powerdale to a deferred account, it would pursuant to FAS 90 be required to write-off this undepreciated balance as a current period expense.

The Company's decision to decommission Powerdale early appears reasonable. As a result of the early decommissioning, it would be appropriate for accounting purposes to transfer the undepreciated net book value from the FERC 101 Account to a deferred account, and then continue to amortize the transferred balance at the same rate as the depreciation rate. Staff therefore agrees with this portion of the Company's request.

Additionally, the Company is requesting permission to include the unamortized balance of this transferred balance as part of a Depreciation Case it anticipates filing in September of 2007. In the September Depreciation Case, the Company expects to request the authority to amortize the remaining balance in the deferred account over a three-year period.

Staff asserts that this case is not the appropriate case to determine the amortization period for the remaining undepreciated plant balance. The Company is asking the Commission to prejudge the issue. Staff believes the Depreciation Case expected to be filed this fall is a more appropriate forum to determine the amortization period. The Company is not harmed if the Commission delays its determination of the appropriate amortization period when more current and relevant information will be available at the time the Depreciation Case is filed. Therefore, the Commission should delay any decision on the amortization period for the undepreciated balance until the Depreciation Case filed at a later date.

The allocation of these amortized costs should be allocated to Idaho using the same formula approved in the Revised Protocol allocation method with the Embedded Cost Differential under the Hydro Endowment.

Decommissioning Costs

The Company is requesting the right to defer the cost of decommissioning Powerdale now as opposed to April 2010. It is anticipated that these costs will total approximately $6.3 million (or $393,000 for Idaho's share), but the Company is requesting a provision to record the actual cost after a reconciliation of the final costs. The Company is asking that a three-year amortization period be used in the recovery of these decommissioning costs in rates in the next rate case.

On a case-by-case basis, the Commission has generally allowed deferred accounting treatment for expenses that are extraordinary and unusual in nature, mandated by regulatory authority and which provide a benefit to the customers. The decommissioning costs that the Company has asked to be deferred appear to satisfy the Commission's standards for deferral treatment. The costs are extraordinary and unusual in nature. The flooding of the facility and the resultant damage was not expected and the change of the river channel is beyond the Company's control. The cost to repair the damage to the facility by the flood made it uneconomical to repair Powerdale now, especially in light of the fact that the facility was going to be decommissioned in 2010. The Company has received FERC approval to begin the decommissioning at this time. Staff believes that the customers benefit from the early decommissioning rather than paying the cost of repair. The Company's analysis shows that the customers benefit by approximately $1.6 million (system) in present value dollars by the early decommissioning.

From an accounting perspective, if the Company is not allowed to defer these decommissioning costs, it would be required to expense them in the current period. Under historical ratemaking, the Company would not be allowed to recover any of these costs in rates absent deferral.

The Company's Application indicates there is the possibility of recovery from its insurance company. There is no discussion in the Application of the appropriate accounting treatment if Rocky Mountain receives any insurance recovery. However, in the Present Value Revenue Requirement calculation the estimated costs are reduced by $745,000 for estimated property insurance payment. Application Exhibit 4. This is consistent with Staff's position that any insurance recovery from this event would be an offset to the deferred costs in the deferral account.

Therefore, Staff recommends that the Company be authorized to record the actual decommissioning costs in a deferred account; and that any insurance proceeds received by the Company from any insurance company also be recorded in the deferral account as an offset to the actual decommissioning cost.

A deferred accounting Order does not constitute Commission approval to recover these costs from customers. Case No. IPC-E-06-33, Order No. 30256, p.3. Therefore, the Company may include recovery of these costs in the next rate case, but any costs included in the deferred account will be subject to future review and audit.

The Company requested that the Commission establish three (3) years as the amortization period for these deferred costs. It states that the reason for a three-year period is that "[I]nclusion in rates over the three-year period allows the company to collect the funds necessary to pay for the decommissioning of the plant when it begins in 2010." This statement makes it unclear on when the actual decommission work will be done, and when the costs for the decommissioning will be incurred. Under the circumstances of this case, Staff does not agree with the Company's position that it should be allowed to fully collect the decommissioning funds in advance of the actual expenditures for decommissioning. Any amortization of the decommissioning costs presented in the next rate case should be only the costs for decommissioning work and expenses incurred to date.

With the approval to proceed with early decommissioning, the 2010 date may become irrelevant. Staff believes the three-year amortization period requested by the Company is too short to amortize all the decommissioning costs. Staff believes an appropriate amortization period to amortize these costs is ten (10) years. Additionally, the amortization of these costs should begin in the first year following the actual incurrence of the costs. Therefore, Staff recommends that the Company be allowed to account for the actual costs of decommissioning in a deferral account; and that the Company begin amortizing those costs over a ten-year period in the first year after incurrence.

Cost Allocation

The Revised Protocol is the current method of cost allocation adopted for inter-jurisdictional allocation purposes.[3] Hydro related costs are initially allocated ratably to each state jurisdiction. The Idaho estimated portion of the undepreciated investment in the Powerdale generating plant is $557,000 and the estimated decommissioning cost to Idaho is $393,000 using the March 2006 allocation factors. Although there isn't a proposed change to the allocation methodology, the allocation factors will change over time and the actual amount allocated to Idaho will differ. The Company 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.

More specifically, Company-owned hydro is an exception to system allocations. It is classified as a "Regional Resource, Hydro-Endowment." The Hydro-Endowment assigns the majority of the benefits and the associated costs for the Company-owned hydro system located in the western control area of the system, previously Pacific Power & Light, to those states (Oregon, Washington, California and Wyoming).

In rate cases the Embedded Cost Differential assigns and allocates the annual embedded hydro costs above that of the system directly to the Pacific division states. A settlement resulting from relicensing was entered between PacifiCorp, Oregon and federal stakeholders (Application, Exhibit 2, p.3) to provide for early decommissioning of the Powerdale generating facility. Replacement power costs associated with this agreement and others related to environmental issues should be an issue discussed by the MSP Standing Committee and workgroup. Staff proposes that the power replacement cost detail should be clearly identified and included in the Embedded Cost Differential calculation. A decision on the final amount to be allocated to Idaho is appropriately decided in a future rate case after this issue has been clarified with PacifiCorp and the MSP Standing Committee.

[3] Idaho adopted the Revised Protocol in Case No. PAC-E-02-3, Order No. 29708 dated February 28, 2005. Utah, Oregon and Wyoming also adopted the Revised Protocol.

RECOMMENDATION

In summary, Staff recommends the following for each of the different area of costs:

A. Undepreciated Cost of Plant for the Powerdale Power facility:

1. Staff recommends that the Company be allowed to defer the undepreciated net plant.
2. Staff recommends that the Company continue to amortize the transferred balance at the same rate as the current depreciation rate for the plant.
3. Staff recommends that the Commission delay any decision on the length of amortization for the undepreciated balance until this balance is considered in a depreciation case to be filed later this year.

B. Decommissioning Costs:

1. Staff recommends that the Company be allowed to record the actual decommissioning costs in a deferred account; and that any insurance proceeds for the loss of Powerdale received by the Company also be recorded in the deferral account as an offset to the actual decommissioning costs. This recommendation is only for the recording of the costs in a deferred account and not for the recovery of any of the costs. The recovery issue should be determined at the time the costs are included in a rate case filed by the Company.
2. Staff recommends that these costs be amortized over a ten (10)-year term, and that the amortization of these costs begin in the first year following the actual incurrence of the cost.

C. Allocation of Idaho's portion of Costs:

Staff recommends that the decision on the final amount to be allocated to Idaho is appropriately decided in a future rate case after this issue has been clarified with PacifiCorp and the MSP Standing Committee.

Respectfully submitted this 1 day of May 2007.

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Deputy Attorney General

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Terri Carlock

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF MAY 2007, SERVED THE FOREGOING **COMMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-07-4, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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