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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PACIFICORP FOR A DEFERRED) **CASE NO. PAC-E-06-3**
ACCOUNTING ORDER TO DEFER THE COST)
OF LOANS MADE TO GRID WEST, THE)
REGIONAL TRANSMISSION ORGANIZATION.) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 30080 on June 29, 2006, submits the following comments.

BACKGROUND

On March 31, 2006, PacifiCorp dba Rocky Mountain Power filed an Application requesting an accounting Order from the Commission authorizing the deferral of costs the Company incurred relating to the development of a regional transmission organization (RTO). PacifiCorp alleges it participated in efforts to develop an RTO, now called Grid West, pursuant to Orders issued by the Federal Energy Regulatory Commission (FERC). The Application states that Pacific Northwest electric utilities have been involved in the RTO development process since 2000, and that the costs incurred by the utilities were to be repaid through surcharges on

customers after the RTO became operational. It now appears the development of Grid West is unlikely, and PacifiCorp requests authorization to defer the amounts it loaned to Grid West, with interest, in the development process. An accounting Order authorizing deferral of costs does not represent the final determination of reasonableness or the amount of the costs ultimately recovered in rates.

PacifiCorp states it provided initial funding for the development of the RTO beginning in June 2000, and since that date PacifiCorp has loaned a total of \$2.7 million to Grid West. PacifiCorp estimates that the Idaho jurisdiction portion of the total deferred amount is approximately \$174,000.

STAFF REVIEW

Staff has reviewed the Company's Application as well as FERC Order No. 888 and FERC Order No. 2000. FERC Order No. 888 instructs utilities to open their transmission lines to competitors in an effort to reduce wholesale electricity prices and ultimately bring lower prices to ratepayers. FERC Order No. 2000 placed the impetus on transmission owners to develop an RTO or explain why such an organization could not be created. Staff believes PacifiCorp's participation in Grid West was compliant with the intentions of FERC.

One a case-by-case basis, this Commission has generally allowed deferred accounting treatment for expenses that are extraordinary and unusual in nature, mandated by regulatory authority and which provide benefits to customers. Though ultimately Grid West provided no benefits to customers, the expenses were extraordinary and unusual in nature and were mandated by FERC. For those two reasons, Staff recommends that the Commission authorize PacifiCorp to book the principal amount of the funding agreements with Grid West to account 182.3 (Other Regulatory Assets). A separate sub-account should be maintained, facilitating Staff's audit of these expenses in a future rate case. Staff also recommends that the recovery of these costs and the amortization period used for recovery be addressed in the Company's next general rate case filing. As the Commission has previously noted on numerous occasions, a deferred accounting Order does not constitute Commission approval to recover these costs from ratepayers. The interest on the funding agreements, carrying charges on deferred balances, and the amortization period absent a rate case are discussed separately below.

Interest on Funding Agreements

PacifiCorp has accrued interest on the loan amounts provided to Grid West at the rates established by FERC for refunds, pursuant to 18 CFR 35.19a, though the Application did not segregate principal balance from interest accruals. Staff believes that PacifiCorp should not be allowed to defer for future recovery the amount of interest accrued on the promissory notes to Grid West. First, had Grid West been successful, the interest on these loans would have been paid by Grid West as a return on PacifiCorp's investment in the RTO. Since Grid West was not successful, customers should not be expected to pay for a return on a failed investment. Furthermore, PacifiCorp never had any cash outlay for the interest portion, and the return of the actual expenditure is sufficient recovery for the utility without interest accrual.

Carrying Charges

In its Application, PacifiCorp requests, without justification, authorization to accrue interest on the unamortized deferred balance at a rate equal to its weighted cost of capital. Absent deferral treatment, the opportunity to recover these costs is not allowed. Staff believes that by authorizing deferred accounting treatment for PacifiCorp, the Commission is granting the Company significant opportunity to recover these costs, and thus recovery of interest is not necessary. If the deferral were not approved, no interest would accrue and the recovery of any underlying costs would be questionable. The deferral method facilitates later recovery of the amortization of these costs in rates. If the Commission determines a carrying charge is required, the rate should be at the PCA customer deposit rate and not the Company's weighted cost of capital.

Amortization Period


To prevent excessive deferrals from building up on the balance sheet, Staff recommends that the Company begin amortization of the deferred balance at the conclusion of its next general rate case or on January 1, 2010, whichever occurs first. Amortization beginning no later than January 1, 2010 is warranted since the expenditures were incurred in response to FERC directives. Immediate amortization would be appropriate for expenditures directly under the Company's control. An amortization period beginning no later than 2010 will also allow any continued efforts for an RTO to be better known. Staff believes that the initial amortization

period should be five years unless a different time period is supported by a party in a general rate case and is approved by the Commission.

STAFF RECOMMENDATIONS

1. Staff recommends that the Commission authorize PacifiCorp to book the principal amount of the funding agreements for the Grid West start up costs into account 182.3 (Regulatory Assets and Liabilities), utilizing a separate sub-account specifically for these amounts.
2. Staff recommends the Commission not allow the deferral of accrued interest on the Grid West loans.
3. Staff recommends the Commission not approve any carrying charges on the amounts deferred.
4. Staff recommends that the Commission order amortization of the deferred amounts to begin no later than January 1, 2010 absent a rate case Order establishing different treatment.

Respectfully submitted this 14th day of August 2006



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Donn English

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF AUGUST 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-06-3, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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