

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF PACIFICORP DBA)
ROCKY MOUNTAIN POWER'S) CASE NO. PAC-E-06-11
APPLICATION FOR A DEFERRED)
ACCOUNTING ORDER TO DEFER THE)
COSTS RELATED TO THE MIDAMERICAN)
ENERGY HOLDINGS COMPANY) ORDER NO. 30225
TRANSITION)**

On October 10, 2006, PacifiCorp dba Rocky Mountain Power (RMP or the "Company") filed an Application seeking an order authorizing the Company to defer and amortize over a three-year period the costs related to the MidAmerican Energy Holdings Company transition (the "MEHC Transition"). On November 9, 2006, the Commission issued a Notice of Application and Modified Procedure and solicited comments from interested parties. Order No. 30176. The only comments received were filed by Commission Staff.

THE APPLICATION

According to the Application, the Company is incurring costs related to the MEHC Transition for employee severance and conversion of software to an accounting calendar year. The Company seeks an order authorizing the capitalization of these costs through March 2007 and then amortization of the capitalized balance over a three-year period to begin at the implementation of new rates from a general rate case filed after December 2006.

The Company anticipates that its costs related to employee severance will exceed \$25 million on a total Company basis. It also estimates that the cost of adapting the software will fall between \$500,000 and \$1,000,000. The Company proposes that the MEHC Transition costs be charged to Account 182.3 Other Regulatory Assets and that they be amortized to Account 930.2 Miscellaneous General Expenses. It proposes to include the unamortized amounts in its rate base where they would earn a return at the Company's authorized rate of return. If not re-allocated to the above-noted accounts, these costs would be charged to the Company's operations and maintenance accounts. The Company does not request a determination of ratemaking treatment of the MEHC Transition costs in this Application; rather, it proposes to address the recovery of these costs in its next rate case.

STAFF COMMENTS

Staff agreed with the proposed accounting treatment for the deferrals, and agreed that the costs should be segregated in separate deferral accounts until they can be considered in the next general rate case. Deferral will provide the opportunity to recover prudently incurred costs while matching benefits with these costs. Staff believes that the Company should not be entitled to any return, accrued interest or carrying charges associated with the deferred amounts.

Staff believes that a three-year amortization of the approved costs appears to be reasonable. This allows the Company to match the costs with resulting associated benefits or reduced expenses.

Staff noted a possible conflict between potential recovery of these costs and the commitments made by the Company as part of the MEHC acquisition case. One of those commitments specific to Idaho was to reduce total Company Administrative and General (A&G) expenses by \$6 million annually. See Commitment I 31 in Order No. 29998, Case No. PAC-E-05-8. Staff believes that the committed reduction in total Company A&G should be realized by the customers before any consideration is given to recovery of the amortization associated with these deferred costs.

Staff further noted that the Company also previously committed that its acquisition would not result in ratepayers being charged increased rates. Thus, Staff noted concerns related to the evidence the Commission may receive from the Company in the rate case as justification for cost recovery.

Staff believes that the cost of changing the Company's software to accommodate an accounting year-end that matches MEHC's should not be allowed in rates unless it benefits ratepayers. In the next rate case, the Company will be required to show that the cost of changing the software for a different year-end results in a benefit to the customers, and that the benefit is greater than the cost of the change. Staff noted that the Company will have the burden of providing all cost/benefit analyses to justify the inclusion of this cost in the next rate case.

Lastly, Staff commented that deferral of the costs as requested in the Application should not limit the right of Staff to audit, question and challenge the appropriateness, reasonableness and prudence of any of the costs included in the deferred accounts or any of the benefits the Company may include in the cost/benefit studies. This sort of review is critical to protect ratepayers.

COMMISSION FINDINGS

We find that the Company should be allowed to defer in separate subaccounts the costs related to the severance of certain employees and the costs of revising its accounting software. The Company shall not be entitled to any return, accrued interest or carrying charges associated with the deferred amounts.

As noted above, in Case No. PAC-E-05-08, the Company committed to achieving certain savings that would benefit ratepayers. We find that, in order not to dilute the benefits that were meant to flow to customers from the acquisition by MEHC, the Company must first meet its commitment to reduce Company total A&G expenses by \$6 million annually. Only then will the amortization of costs from the severance program or the software change be considered for ratemaking purposes.

Lastly, we find that the Company may seek to recover these costs in future rate cases; however, as with any expense for which it seeks recovery, the Company will need to provide evidence justifying such recovery. We find that cost/benefit studies showing the effects of the Company's employee severance program and the modification of the relevant software would be informative. We direct the Company to prepare and file such studies with the supporting documentation in its subsequent general rate cases in which it seeks to recover the costs that are being deferred here. We further find our approval of the deferral of the severance and software costs does not limit or modify the Staff's ability to audit, review or challenge the deferred costs or any benefits claimed by the Company in its justification of cost recovery.

CONCLUSIONS OF LAW

The Commission has jurisdiction and authority over PacifiCorp dba Rocky Mountain Power, an electric utility, and the issues raised in Case No. PAC-E-06-11, pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.* The Commission has jurisdiction over the Company's request pursuant to *Idaho Code* § 61-524.

ORDER

IT IS HEREBY ORDERED that the Application is approved, and the Company is authorized to defer the costs of the MEHC Transition in Account 182.3 Other Regulatory Assets as set forth above and amortize the balance to Account 930.2 Miscellaneous General Expenses over a three-year period.

IT IS FURTHER ORDERED that the deferred costs will not include a return, accrue any interest or reflect any carrying charge.

IT IS FURTHER ORDERED that the Company will be allowed to seek recovery of these deferred costs in its future rate cases. The Company shall conduct studies regarding the costs and benefits of its employee severance program and modification of its software to reflect a different year-end date, and shall file such studies with the supporting documentation in any rate case in which it seeks recovery of these deferred costs.

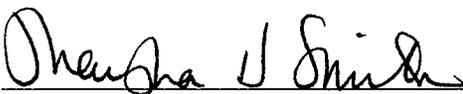
IT IS FURTHER ORDERED that the Company will meet Commitment I 31 in Order No. 29998 to reduce the Company's total A&G expenses by \$6 million annually before any amortization of costs associated with the employee severance program or the software change will be considered for ratemaking purposes.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 19th
day of January 2007.



PAUL KJELLANDER, PRESIDENT

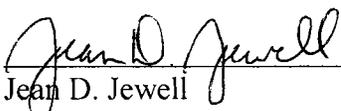


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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