CECELIA A. GASSNER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0314
BAR NO. 6977

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

RECEIVED
2006 DEC 22 AM 10: 10
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF PACIFICORP DBA ROCKY MOUNTAIN POWER'S APPLICATION FOR A DEFERRED ACCOUNTING ORDER TO DEFER THE COSTS RELATED TO THE MIDAMERICAN ENERGY HOLDINGS COMPANY TRANSITION

CASE NO. PAC-E-06-11

COMMENTS OF THE COMMISSION STAFF

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Cecelia A. Gassner, Deputy Attorney General, in response to the Notice of Application and the Notice of Modified Procedure in Order No. 30176 issued on November 9, 2006, submits the following comments.

BACKGROUND

On October 10, 2006, PacifiCorp dba Rocky Mountain Power filed an Application seeking an order authorizing the Company to defer and amortize over a three-year period the costs related to the transition following MidAmerican Energy Holdings Company's purchase of PacifiCorp (the "MEHC Transition"). The Commission has jurisdiction over the Company's request pursuant to *Idaho Code* § 61-524.

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 wishes to capitalize the costs of the severance program in accordance with paragraph 9 of SFAS No. 71. The cost of the MEHC Transition would then be amortized on a straight-line basis over a three-year period. The Company states that this amortization is appropriate because the MEHC Transition activities are concentrated in the first several months while the benefits of the transition are realized over a longer timeframe. According to the Company, charging the transition costs in the period they are incurred would be unfair to existing customers for the benefit of future customers; thus, capitalizing the costs and amortizing them supports the matching principle for costs and benefits.

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 it would earn a return at the Company's authorized rate of return. If the Application is not granted, 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 ANALYSIS

Staff has reviewed the Application and proposed treatment for the deferral of the costs relating to the employee severance program and conversion of computer software to an accounting calendar year. Staff has separated its discussion of the deferral request for the employee severance from the discussion of the deferral request for the conversion of the computer software.

Initially, Staff agrees with the proposed accounting treatment for the deferrals, and agrees that the costs should be segregated in separate deferral accounts until they can be considered in the next general rate case. The accounts should not be included in rate base, accrue any interest or reflect any carrying charge.

The Company should not be entitled to any return, accrued interest or carrying charges on the deferred amounts. The Company should be allowed to defer the amounts as Staff explains below; however, two of the primary reasons for being allowed to defer these costs are: 1) to match the actual customer benefits with the actual costs and 2) to allow recovery of prudently incurred costs. Staff believes that by authorizing deferred accounting treatment for PacifiCorp, the Commission is granting the Company a significant opportunity to recover these costs that would not be recoverable otherwise on a retroactive basis, and therefore recovery of a return or interest is not necessary.

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.

Overriding considerations regarding potential recovery of these costs include the Company's agreement, as part of the MEHC acquisition case, to several commitments. One of those commitments specific to Idaho was to reduce total Company Administrative and General (A&G) expenses by $6.0 million annually. *See* Commitment I 31 in Order No. 29998, Case No. PAC-E-05-8. 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. Additional benefits or cost savings resulting from the reduction of employees under the severance program or the streamlining of the financial reporting for regulatory purposes created by the conversion of the computer software should be realized in order to allow a ratemaking offset with the deferral amortization.

The Company also previously committed that its acquisition would not result in ratepayers being charged increased rates. In addition, Staff has concerns related to the evidence the Commission may receive from the Company in the rate case as justification for cost recovery. The Company is required to carry the burden of proof that the Company did in fact have a reduction of employees as part of the MEHC Transition, and that employee salaries and benefits after the severance program is completed are less than the baseline.

The deferral of the costs for severance payments to involuntarily terminated employees as a result of the MEHC Transition is estimated to cost in excess of $25 million on a total company basis. Idaho's allocable share of these costs would increase the Company's revenue requirement by approximately $1.5 to $2.0 million. The termination of these employees, however, will result in lower salary and benefit expenses that should offset the increase in the revenue requirement.

The matching principle of accounting requires that benefits and any costs associated with that benefit be matched in the same reporting period. The cost savings by the Company in employee expenses should be evident in the next rate case and therefore a benefit to customers. If the savings in the reduced human resources expenditures is greater than the costs incurred and amortized, the Company's customers will likely benefit from the reduction in revenue requirement in future rate cases. Staff will review in the next rate case any cost/benefit studies showing that the savings from the Company's employee severance program exceed the costs incurred to generate those savings.

The Company states in its Application "[t]he MEHC Transition also necessitates changing computer software from a fiscal year ending March to a calendar year ending December," as the Company believes this "will streamline financial reporting for regulatory purposes." Application at 3. The cost of changing the Company's software to accommodate an accounting year-end that matches MEHC's without some benefit to the ratepayers should not be allowed in rates. 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. The Company will have the burden of providing all cost/benefit analyses to justify the inclusion of this cost in the next rate case. Only when the Company can adequately show the benefits to customers of this change, would it be appropriate to consider recovery and allow the Company to match the costs of the change with the resulting benefits.

Lastly, 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.

STAFF RECOMMENDATIONS

The Staff recommends:

1. That the Company be allowed to defer in separate subaccounts the costs of the MEHC Transition related to the severance of certain employees and for changes in computer software changing the fiscal year-end from March to December;
2. That the Company be allowed to justify recovery of these costs in its next general rate case;
3. That the deferred account balances will not be included in rate base, accrue interest or incur any carrying charges;
4. That the Company be directed to file all cost/benefit studies along with all study supporting materials with regards to the severance costs and software change costs in its next general rate case;
5. That the Commission direct that any deferral approval of the severance and software costs 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; and
6. That any benefit or cost savings from the severance program or the software change not be included in any evaluation or other determination as to whether the Company has met its commitment to reduce Company total A&G by $6.0 million annually.

Respectfully submitted this 23rd day of December 2006.

Cecelia A. Gassner
Deputy Attorney General

Technical Staff: Joe Leckie

i:umisc:comments/pace06.11cgjl

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF DECEMBER 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-06-11, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DEAN BROCKBANK ESQ
PACIFICORP
DBA ROCKY MOUNTAIN POWER
201 S MAIN ST STE 2200
SALT LAKE CITY UT 84111

BRIAN DICKMAN
PACIFICORP
DBA ROCKY MOUNTAIN POWER
201 S MAIN ST STE 2300
SALT LAKE CITY UT 84111

DATA REQUEST RESPONSE CENTER
PACIFICORP
825 NE MULTNOMAH STE 2000
PORTLAND OR 97232

Theresa D. Koch
SECRETARY