DECISION MEMORANDUM

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

FROM: CECELIA GASSNER

DATE: JANUARY 12, 2007

SUBJECT: 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

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 MidAmerican Energy Holdings Company transition (the "MEHC Transition"). The Commission has jurisdiction over the Company's request pursuant to *Idaho Code* § 61-524.

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 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 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 COMMENTS

Staff reviewed the Application and Company proposals, and separated the Company's request for deferral for the employee severance from the request for deferral of the conversion of 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. Staff believes that the accounts should not be included in rate base, accrue any interest or reflect any carrying charge. Further, the Staff stated that the Company should not be entitled to any return, accrued interest of carrying charges to 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 the potential 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 has concerns related to the evidence the Commission may receive from the Company in the rate case as justification for cost recovery.

According to the Application, 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. Staff commented that the termination of these employees, however, will result in lower salary and benefit expenses that should offset the increase in the revenue requirement.

Staff asserted that 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. Staff commented that it 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.

Staff believes that 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. 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.

Staff Recommendation

The Staff recommended:

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.

COMMISSION DECISION

Does the Commission desire to approve the Application and allow the Company to defer certain costs related to the MEHC Transition? Does the Commission desire to adopt and approve any of the Staff recommendations?

Cecelia Gassner

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