Office of the Secretary
Service Date
June 25, 2007

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-07-04** **ORDER NO. 30344**

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 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. The Company does not seek any particular rate treatment at this time and states that any incremental rate adjustments caused by approval of this Application will be addressed in the Company's general rate case (PAC-E-07-05) filed June 8, 2007.

On April 10, 2007, the Commission issued a Notice of Modified Procedure requesting interested persons to submit comments on the Company's request for an accounting order. The Commission Staff was the only party to comment. After reviewing the Application and Staff comments, we partially grant the Application as set out in greater detail below.

BACKGROUND

Powerdale was constructed in 1922-23 and included a small diversion dam, a 3-mile water conveyance system, and a single 6-MW powerhouse. After initiating a FERC relicensing process for Powerdale in 1995, the Company 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. The Removal Order authorized Rocky Mountain to continue operating Powerdale until April 1, 2010 and provided for removal of the facilities by February 29, 2012.

In November 2006, the Powerdale generating facility was severely damaged by extensive flooding and debris flow. Application at 2. Exhibit 1 to the Company's Application contains photographs showing the damage to various components of the facility. After conducting another economic analysis, the Company concluded that it is now more cost effective to retire this facility than to repair the flood damage. *Id.* 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.

Based upon the substantial damage to the Powerdale facility and the change in the river channel, 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.

THE ACCOUNTING REQUEST

As set out above, Rocky Mountain seeks an accounting order addressing two categories of costs: (1) undepreciated investment in the 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.[1] The Company estimates that the total decommissioning cost will be approximately $6.3 million subject to the 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.

Pursuant to Rocky Mountain's Revised Protocol,[2] hydro-related costs are initially allocated ratably to each of the six state jurisdictions served by PacifiCorp. Rocky Mountain calculates that the Idaho-allocated share of the undepreciated investment in Powerdale is approximately $557,000, and the Idaho-allocated share of the decommissioning cost is approximately $393,000. *Id.* at ¶ 11.

STAFF COMMENTS

After reviewing the Company's Application and the cost-benefit analysis, Staff states that the Company's decision to decommission Powerdale is reasonable. Staff recognizes that the plant was severely damaged by the November 2006 flood and repair would be costly.

1. Plant Investment. Based upon the early decommissioning date, Staff also believes it is 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 Comments at 4.

The Company is also requesting permission to include the unamortized balance as part of its depreciation case to be filed in September 2007. Staff asserts that it is premature in this case for the Commission to set the amortization period for the remaining balance in the deferred account at a rate other than the existing depreciation rate. Staff believes the Company is not harmed if the Commission delays its determination of the appropriate amortization period to when it reviews more current and relevant information in the September depreciation case. *Id.*

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[1] The Company anticipates a change in this 4.2% rate after it files a new depreciation study in September 2007. The Company 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.

[2] The "Revised Protocol" is Rocky Mountain's inter-jurisdictional cost allocation methodology utilized in its six-state service area.

2. Decommissioning. Staff next turned to the decommissioning costs. Staff agrees that the estimated $6.3 million decommissioning (or about $393,000 for Idaho's share) satisfies the Commission's standards for deferral treatment. These costs are extraordinary and unusual given the unexpected flooding of the facility and the change in the river channel. *Id.* at 5. Staff believes that customers benefit from the early decommissioning rather than paying the cost of repair.

The Company's Application indicates that there is a possibility of recovery from its insurance company. There is no discussion in the Application of the accounting treatment in the event that Rocky Mountain is able to offset its loss with insurance. However, the Company's Exhibit 4 does show that the Present Value Revenue Requirement is reduced by $745,000 for estimated property insurance payments. *Id.* at 5; Application, Exh. 4. This accounting offset 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.

3. Amortization Periods. The Company requests that the Commission establish a three-year amortization period for these deferred decommissioning costs. 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." *Id.* at 6. Any amortization of the decommissioning costs presented in the filed general rate case should be only the costs for decommissioning work and expenses incurred to date. With FERC's approval to proceed with early decommissioning, Staff believes that the three-year amortization period is too short to amortize all the decommissioning costs. Staff believes an appropriate amortization period to amortize these decommissioning costs is ten years. Additionally, the amortization of these costs should begin in the first year following the actual incurrence of the costs. Consequently, 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 incurring the costs. *Id.*

4. Cost Allocation. The estimated Idaho portion of undepreciated investment in the Powerdale generating plant is $557,000 and the estimated decommissioning cost to Idaho is $393,000. Staff proposes that the power replacement cost details should be clearly identified and included in the embedded cost differential calculation. Staff argues that the final amount to be

allocated to Idaho is best decided in the Company's rate case after this issue has been clarified with PacifiCorp and the MSP Standing Committee. *Id.* at 7.

DISCUSSION

After reviewing the Company's Application and Staff comments, we find that it is reasonable to partially approve the Company's Application as modified below. Turning first to the undepreciated net book value of the Powerdale plant, we find it reasonable to transfer the $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). Based upon the lack of any disagreement, we further find that it is reasonable to allow the Company to continue to amortize the transferred balance at the same rate as the existing depreciation rate. However, we accept Staff's position that the amortization period for this remaining balance should be decided as part of the Company's depreciation case scheduled to be filed in September 2007.

Turning to the decommissioning costs, we find it reasonable to defer the actual decommissioning costs in FERC Account 182.2. We also accept Staff's recommendation that any insurance proceeds for the loss of the Powerdale plant be recorded in the deferral account as an offset to the actual decommissioning costs. We also find that a three-year amortization period for the decommissioning costs is too short a period to amortize these costs. We find that the appropriate amortization period should be ten years and that the amortization of these costs should begin in the first year following the actual incurrence of the decommissioning costs.

Finally, we note that Rocky Mountain estimates that the undepreciated investment of Powerdale for Idaho is $557,000 and the estimated decommissioning costs proposed to be allocated to Idaho are $393,000. The appropriate ratemaking treatment will be further evaluated in the general rate case and depreciation case as proposed by Staff and the Company

ORDER

IT IS HEREBY ORDERED that Rocky Mountain Power's Application is granted in part and denied in part. The Company's request to transfer $8.9 million in undepreciated net investment from FERC Account 101 to FERC Account 182.2 is approved.

IT IS FURTHER ORDERED that the request to amortize the undepreciated plant over three years is denied. The undepreciated plant costs transferred to Account 182.2 shall be amortized at the same rate as the current depreciation rate for plant. The appropriate amortization period will be set in the Company's depreciation case (scheduled to be filed in September 2007).

IT IS FURTHER ORDERED that the Company shall record its actual decommissioning costs for Powerdale in FERC Account 182.2. Any insurance proceeds from the Powerdale loss shall offset the actual decommissioning costs recorded in the deferral account. Decommissioning costs shall be amortized over a ten-year period beginning the first year following the incurrence of such costs.

IT IS FURTHER ORDERED that deferral treatment is appropriate. The actual amounts of deferred plant and decommissioning costs allocated to Idaho and included for ratemaking purposes is more appropriately determined in a future rate case. This timing will allow the necessary review of the embedded cost differential (ECD) calculation for allocation purposes.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. PAC-E-07-04 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 or in interlocutory Orders previously issued in this case. 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 25th day of June 2007.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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