DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL

DATE: MAY 17, 2007

SUBJECT: ROCKY MOUNTAIN POWER'S APPLICATION FOR AN ACCOUNTING ORDER RELATING TO THE POWERDALE HYDRO FACILITY, CASE NO. PAC-E-07-04

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 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 next general rate case.

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 no later than May 2, 2007. Commission Staff was the only party to comment.

BACKGROUND

Powerdale was constructed in 1922-1923 and includes a small diversion dam, and 3-mile water conveyance system, and a single 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 damaged by 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. Nos. 4-5.

THE ACCOUNTING REQUEST

As set out above, Rocky Mountain seeks an accounting order addressing two categories of costs: (1) undepreciated investment in 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 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, the Staff states that the Company's decision to decommission Powerdale appears reasonable. Based upon the early decommissioning date, the 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 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. Staff believes the Company is not harmed if the Commission delays its

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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 areas.

determination of the appropriate amortization period to when it reviews more current and relevant information in the September depreciation case. *Id.*

1. Decommissioning. Staff next turned to the decommissioning costs. Staff agrees that the $6.3 million decommissioning (or $393,000 for Idaho's share) satisfies the Commission's standards for deferral treatment. These costs are extraordinary and unusual in the nature 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. 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 the Staff's position that any insurance recovery from this event would be an offset to the deferred costs in the deferral account.

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 next general rate case should only be the costs for decommissioning work and expenses incurred to date. With FERC's approval to proceed with early decommissioning, the Staff believes that 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.*

2. Cost Allocation. The Idaho estimated 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. A decision on the final amount to be allocated to Idaho is appropriately decided in the Company's next rate case after this issue has been clarified with PacifiCorp and the MSP Standing Committee. *Id.* at 7.

Staff Recommendation

A. Undepreciated cost of plant for the Powerdale Power facility:

1. Staff recommends that the Company be allowed to defer the undepreciated net plant.

2. Staff recommends that the Company continue to amortize the transferred balance at the same rate as the current depreciation rate for the plant.

3. Staff recommends that the Commission delay any decision on the length of amortization for the undepreciated balance until this balance is considered in a depreciation case to be filed later this year.

B. Decommissioning costs:

1. Staff recommends that the Company be allowed to record the actual decommissioning costs in a deferred account; and that any insurance proceeds for the loss of Powerdale received by the Company also be recorded in the deferral account as an offset to the actual decommissioning costs. This recommendation is only for the recording of the costs in a deferred account and not for the recovery of any of the costs. The recovery issue should be determined at the time the costs are included in a rate case filed by the Company.

2. Staff recommends that these costs be amortized over a ten-year term, and that the amortization of these costs begin in the first year following the actual incurrence of the cost.

C. Allocation of Idaho's portion of costs:

1. Staff recommends that the decision on the final amount to be allocated to Idaho is appropriately decided in a future rate case after this issue has been clarified with PacifiCorp and the MSP Standing Committee.

COMMISSION DECISION

1. Undepreciated costs: Does the Commission wish to issue an accounting order so that Rocky Mountain Power can defer the undepreciated net plant investment in the Powerdale

facility? Should amortization continue at the existing depreciation rate? Should the length of the amortization be set in this case or in the pending depreciation case?

2. Decommissioning Costs: Should insurance proceedings offset any decommissioning costs? Should decommissioning costs be recorded in a deferral account? What is the appropriate time period for the amortization of this decommissioning deferred account and when should amortization begin?

3. Allocation: Does the Commission wish to defer the question of allocating Idaho's portions of the Powerdale costs to the Company's next general rate case after this issue has been clarified with PacifiCorp and the MSP Standing Committee?

4. Anything else?

Don

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