Office of the Secretary
Service Date
June 5, 2015

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER AND IDAHO POWER COMPANY FOR AN ORDER AUTHORIZING THE EXCHANGE OF CERTAIN TRANSMISSION ASSETS	)	**CASE NOS. IPC-E-14-41 PAC-E-14-11** **ORDER NO. 33313**

On December 19, 2014, PacifiCorp dba Rocky Mountain Power and Pacific Power (collectively "PacifiCorp"), and Idaho Power Company (together, the "parties") filed a joint Application asking the Commission to approve the exchange of certain transmission assets. Over the past 40 years, the parties have entered into a number of agreements (generally referred to as "Legacy Agreements") through which they jointly own and operate the Jim Bridger power plant and associated transmission assets.[1] On October 24, 2014, the parties entered into a Joint Purchase and Sale Agreement (JPSA) and Joint Ownership and Operating Agreement (JOOA) to largely replace or amend three prior Legacy Transmission Agreements. The purpose of the new agreements is to address inefficiencies caused by changes in "the regulatory landscape, the Parties' respective load growth, and investments in system upgrades." Application at 2-3. The new agreements would exchange the parties' assets and re-allocate ownership interests and operational responsibilities. *Id.* The parties ask the Commission for an Order approving these new agreements and findings consistent with the requirements set forth in *Idaho Code* § 61-328. *Id.* at 11.

On January 13, 2015, the Commission issued a Notice of Application and Notice of Intervention Deadline in which it granted the previously-filed Petition to Intervene by Industrial Customers of Idaho Power (ICIP). Order No. 33212. No other parties moved for intervention, and on February 18, 2015, the Commission issued a Notice of Modified Procedure. Order No. 33231. ICIP and Commission Staff filed written comments. Idaho Power and PacifiCorp filed a joint reply. We approve the joint Application as conditioned below.

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[1] The Jim Bridger Plant is connected to Idaho Power and PacifiCorp's transmission system by three 345 kV transmission lines: (1) the Jim Bridger – Three Mile Knoll – Goshen line; (2) the Jim Bridger – Populus – Borah line; and (3) the Jim Bridger – Populus – Kinport line. Application at 3.

BACKGROUND

In 1969, the parties entered into "a series of agreements for the construction, ownership, and operation of the Jim Bridger power plant." Grow Direct at 4. These Legacy Agreements include the Restated Transmission Service Agreement (RTSA), the Restated and Amended Transmission Facilities Agreement (RATFA), and the Interconnection and Transmission Service Agreement (ITSA). Application at 2-3. Among other purposes, these three Legacy Transmission Agreements were intended to move energy from the Jim Bridger plant in Wyoming to PacifiCorp's "West Balancing Area" in Oregon, Washington, and California. *Id.* Since those agreements were signed, the allocation of the parties' ownership and operational responsibilities has been rendered inefficient "with regard to each Party's modern day load-service and regulatory obligations." *Id.* at 2. To address this inefficiency, the parties entered into the JPSA and JOOA, dated October 24, 2014, which would exchange certain transmission assets and eliminate or amend all prior Legacy Agreements. *Id.* at 3.

Under *Idaho Code* § 61-328, Idaho Power and PacifiCorp must obtain this Commission's approval for their proposed exchange or transfer. The Commission shall approve the exchange only upon finding that: (a) the transaction is consistent with the public interest; (b) the "cost of and rates for supplying service will not be increased by reason of such transaction"; and (c) the applicant(s) have the "bona fide intent and financial ability to operate and maintain said property in the public service." *Idaho Code* § 61-328(3). The Commission may condition a transaction as required by public convenience and necessity. *Id.* at (4).

THE APPLICATION

The parties ask the Commission to approve their asset exchange according to the provisions of the JPSA and JOOA, which they say will simplify and modernize their relationship and be more consistent with current regulatory requirements. Application at 4. According to the parties, the new agreements will improve their relationship by better allocating asset ownership with load service needs. *Id.* at 7. Under the three Legacy Transmission Agreements, PacifiCorp owns two of the three transmission lines connecting the parties' transmission system to the Jim Bridger Plant; Idaho Power owns one. *Id.* at 3-4. The parties' new agreements would allocate ownership in each of the three transmission lines to both Idaho Power and PacifiCorp. *Id.* at 4. PacifiCorp would be provided about 1,600 megawatts (MW) of capacity across Idaho Power's transmission system, "consistent with the capacity PacifiCorp is provided under the Legacy

Agreements and existing Open Access Transmission Tariff (OATT) service." *Id.* Idaho Power would be provided with capacity "on various portions of the existing PacifiCorp transmission system." *Id.* The new agreements would "not create any new available transmission capacity." *Id.* at 5. This re-allocation would better align the parties' ownership interests with their current operational requirements. *Id.* at 4-5.

Under the JPSA, PacifiCorp would receive ownership in the following substations and transmission lines to meet capacity needs:

Substations	**Transmission Lines**
Kinport	Jim Bridger – Three Mile Knoll – Goshen
Borah	Goshen – Jefferson – Big Grassy
Adelaide	Midpoint – Kinport
Midpoint	Midpoint – Adelaide – Borah #1
	Midpoint – Adelaide – Borah #2

Id. at 6.

Under the JPSA, Idaho Power would receive ownership in the following PacifiCorp substations and transmission lines to facilitate its service obligations:

Substations	**Transmission Lines**
Goshen	Kinport – Goshen
Burns	Antelope – Goshen
Summer Lake	Antelope – Scoville
Jefferson	American Falls – Malad
Big Grassy	Midpoint – Hemingway – Summer Lake
Walla Walla	Walla Walla – Hurricane
Hurricane	Jim Bridger – Populus – Borah
Antelope	Jim Bridger – Populus – Kinport

Id.

The parties assert the two new agreements will be more consistent with current regulatory requirements than the Legacy Agreements which use antiquated language and practices regarding transmission service. *Id.* at 4-5. The parties indicate that, under the new agreements, purchases of transmission service will be OATT-based, using current reliability standards and industry practices, and providing more transparency. *Id.* at 5, 8.

Finally, the parties state the two new agreements will "[c]onsolidate and modernize the ownership and operational provisions of the Legacy Agreements into a single agreement, the

JOOA." *Id.* at 8. The parties indicate that, if approved, "the new arrangement will replace approximately fourteen Legacy Agreements and amend and consolidate three other Legacy Agreements with current OATT service and ownership." *Id.* The parties further assert that, under the JOOA, they: (1) would have more operational flexibility, thus improving reliability; (2) could "more efficiently operate the transmission system consistent with current regulatory requirements"; and (3) could "more effectively manage required system upgrades and serve expected load growth." *Id.*

According to the parties, the transaction would be worth about $43 million to each party "based on the net book value of the assets as of December 31, 2014." *Id.* at 9. The parties summarized the cost of the assets and the applicable depreciation reserve in the following chart:

	PacifiCorp	**Idaho Power**
Electric Plant in Service	$74,148,876	$63,787,598
Accumulated Depreciation	($30,530,978)	($20,522,563)
Net Plant	$43,617,898	$43,265,036

Id. at 9. The parties believe the asset exchange "benefits both Parties and is in the best interest of both parties' customers." *Id.* The parties request a finding by the Commission that "the costs . . . and rates of existing electric service in the state of Idaho will not be increased by reason of" the asset exchange. *Id.* at 11.

THE COMMENTS

A. Staff Comments

Staff reviewed the Companies' Application, the JPSA and JOOA (and exhibits attached thereto), Idaho Power's Direct Testimony by Lisa Grow and David Angell, and PacifiCorp's Direct Testimony by Richard Vail and Gregory Duvall. Staff generally supports the parties' conclusions about the benefits of the JPSA and JOOA. Staff confirms that the agreements would re-allocate transmission capacity, and ownership interests on the Jim Bridger transmission system as indicated in the parties' Application. Staff Comments at 4. Based on its review, Staff believes that the parties' transaction is consistent with the public interest. *Id.*

1. Reliability and Operational Benefits

Staff specifically evaluated the benefits of the JPSA and JOOA in the context of reliability and operation requirements established by the Federal Energy Regulatory Commission (FERC), the North American Electric Reliability Corporation (NERC), the Western Electric

Coordinating Council (WECC), and the Peak Reliability Coordinator. *Id.* at 5. Staff determined that the proposed re-allocation of transmission would result in significantly improved reliability, "including an enhanced ability to allow each Party to deliver energy during line outage conditions." *Id.* In addition, the asset exchange "would improve alignment with Idaho Power's current operational requirements, and reduce the associated transmission expenses." *Id.* Staff also determined the exchange "would improve access to adjacent transmission and generation assets . . . while eliminating some of the additional wheeling charges" to which Idaho Power is currently subject. *Id.* at 6.

As to PacifiCorp, Staff indicates that operational benefits include additional firm delivery rights which would improve PacifiCorp's ability to deliver power from PacifiCorp East resources to meet loads in PacifiCorp West. *Id.* Finally, Staff determined the JPSA would increase dynamic transfers – firm energy transfers that can be scheduled using a shortened time frame. *Id.* The boost in dynamic transfers would improve electric load stabilization within the hour, increase the pool of available energy services, and reduce the cost of integrating renewable energy into energy delivery. *Id.*

2. Avoided Capital Investments

Staff also examined how the asset exchange would affect the need for capital investment in transmission assets, to comply with reliability and load growth requirements. Because transmission capital investments are included in rates for retail customers, any reduced or avoided capital investment would be beneficial to ratepayers. *Id.* Staff determined the exchange would enable both parties to reduce or avoid future capital investment. *Id.*

In particular, Staff found that the exchange would enable Idaho Power to avoid capital investments to the Antelope to Goshen, American Falls to Malad, and Brady to Antelope Transmission lines. *Id.* at 6-7. As to PacifiCorp, Staff was concerned that capital investments "may be necessary to provide reliable service and accommodate load growth to the PacifiCorp service area." *Id.* at 7 (*citing* PacifiCorp's response to ICIP Production Request No. 3). However, Staff believes "that substantial capital costs would be necessary . . . if the transmission asset exchange was not implemented." *Id.* Staff thus determined that the reduced capital costs from the proposed asset transfer would benefit ratepayers. *Id.*

3. Transmission Capacity Improvements

Staff considered whether the JPSA would require any transmission capacity improvements. While Staff agrees with the parties that the asset exchange would not, by itself, create any new available transmission capacity, Staff believes that the parties' *planned improvements* under the agreements would result in future transmission capacity improvements. *Id.* Staff notes that the parties identified improvements and upgrades between 2014 and 2016, totaling $33,290,000 for Idaho Power, and $9,648,672 for PacifiCorp. *Id.* at 8. These upgrades include replacing the Borah series capacitor, replacing the Kinport series capacitor, and various improvements to the Goshen to Jefferson segment. *Id.* Staff indicated it will review the upgrades listed in the JPSA in more detail in future general rate cases, to ensure they are prudent investments benefitting Idaho ratepayers. *Id.*

4. Financial Considerations

Staff evaluated the parties' assertion that the asset exchange "benefits both parties and is in the best interest of both parties' customers." *See* Application at 9. Staff noted that the parties have not proposed any increase in retail rates resulting from the asset exchange. Staff Comments at 9. Staff confirmed that maintenance and operation expenses after the exchange would be similar to those before the exchange, as the parties asserted. *Id.* at 9-10. Also, Staff confirmed that the net book values of the parties' exchanged assets would be similar to each other, thus "no acquisition premium would be paid or included in rates." *Id.* Staff thus determined that retail rates of existing service in Idaho would not be increased by the exchange. *Id.*

a. Financial Benefits to Idaho Power and Its Retail Customers

As to Idaho Power, Staff determined that the Company's retail customers "would see a significant financial benefit from the termination of the various historical legacy agreements . . . under the JPSA and JOOA." *Id.* at 10. Termination of the Legacy Agreements would increase Idaho Power's OATT tariff, resulting in higher transmission revenue, which would serve as a revenue credit to retail customer rates. *Id.* at 10-11. As proposed, Idaho Power's retail customers would not receive the benefits of this revenue credit until Idaho Power files its next general rate case. *Id.* at 11. However, Staff recommended that Idaho Power pass the revenue credit on to its ratepayers when the increase in OATT rate (and associated reduction in revenue requirement) occurs. *Id.* Staff proposes that the amount (the difference between revenue calculated using the old OATT rates from the revenue calculated using the new OATT tariff) be "flowed through the

[Power Cost Adjustment (PCA)] mechanism, beginning when the OATT rates change until the effective date when it is reflected in base rates." *Id.* Alternatively, Staff recommended the revenue amounts "be deferred in a regulatory account and flow back to customers in the next general rate case." *Id.*

b. Financial Benefits to PacifiCorp and Its Retail Customers

Regarding PacifiCorp, Staff determined that the Company's retail customers – like those of Idaho Power – benefit from the replacement of the various Legacy Agreements (rather than from the transfer of assets). Staff indicated that PacifiCorp's wheeling and use-of-facilities costs would be $20.8 million in 2016, escalating each year thereafter. *Id.* With the asset exchange, PacifiCorp's costs "would start at $17.1 million and there would be no use-of-facilities costs." *Id.* at 12. As proposed, PacifiCorp's retail customers would not receive the benefits of these avoided costs until PacifiCorp files its next general rate case. *Id.* But Staff recommended the financial benefits be passed onto customers as soon as the OATT rates change, by using "the [Energy Cost Adjustment Mechanism (ECAM)] mechanism until the changes are reflected in base rates" through a rate case. *Id.* Alternatively, Staff proposes that the revenue amounts "be deferred in a regulatory account, and flowed back to customers in the next general rate case." *Id.*

c. Other Financial Benefits

Staff determined that both parties' customers would also benefit from the increased transparency and administrative flexibility resulting from the asset exchange. *Id.* Although the parties have not estimated a specific figure for costs avoided, Staff confirms that the elimination of the Legacy Agreements (and the activities associated with them) would result in avoided administrative costs, including time and significant legal expense in interpreting the Legacy Agreements. *Id.*

5. Staff Recommendations

In summary, Staff believes that the asset exchange is in the public interest, and makes the following recommendations:

1. Staff recommended the Commission accept the parties' proposed asset exchange and find: (a) that it is consistent with the public interest; (b) that the costs and rates of existing electric service in Idaho will not be increased by reason of the transaction; and (c) that the parties have a bona fide intent and financial ability to operate and maintain the transferred assets in the public service. *Idaho Code* § 61-328(3).

2. Staff recommended the Commission order financial benefits to be flowed back to Idaho Power and PacifiCorp customers via the PCA and ECAM respectively, once the OATT rates change. Alternatively, Staff recommended that revenue amounts be deferred in a regulatory account, and flowed back to customers in the next general rate case.

3. Staff recommended the Commission order the parties to file all final documents pertaining to the asset transfer including: (a) documents related to the true-up at closing; (b) final journal entries and updated list of parties' common equipment; (c) proposed common transmission line loss methodology,[2] once completed; (d) a yearly filing from Idaho Power detailing the change in transmission revenue resulting from the change in its OATT tariff and rates (whether filed in conjunction with the PCA or as a report on a deferral in a regulatory account); and (e) a yearly filing from PacifiCorp reporting the change in wheeling expenses resulting from the asset exchange and the change in Idaho Power's OATT tariff and rates, (whether filed in conjunction with the ECAM or as a report on a deferral in a regulatory account). Staff Comments at 13.

B. ICIP's Comments

In its comments, ICIP notes that the parties have initiated a parallel proceeding before FERC. ICIP Comments at 1-2, 4. ICIP urges the Commission to defer action in this case until after the FERC proceeding is resolved, arguing that a determination by this Commission is likely to be altered by the FERC proceeding's outcome. *Id.* at 2, 4. In support of this "likelihood," ICIP asserts that other interested parties have opposed the proposed transaction before FERC. *Id.* at 4. ICIP acknowledges that the issues before FERC are distinct from the issues here,[3] but asserts the opposition in the FERC proceeding includes concern "that the transaction will significantly increase Idaho Power's transmission formula rates without a transmission rate case." *Id.*

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[2] Under the Legacy Agreements, the RTSA outlines how losses are repaid for services provided under the contract, and defines loss repayment for transmission and generator main step-up transformer losses. Staff reports that the parties are reviewing options for the loss calculations and repayment options but have yet to determine a common methodology. Staff Comments at 12.

[3] According to ICIP, the parties – in the FERC proceeding – "must prove that the transaction will meet FERC's rules barring discrimination and preferential treatment in the provision of interstate transmission services." ICIP Comments at 4.

According to ICIP, the possible increase to Idaho Power's transmission formula rate would result in "economic benefits accruing to native load retail customers." *Id.* ICIP maintains that such economic benefits "necessarily impact this Commission's analysis of whether the overall transaction" satisfies the requirements of *Idaho Code* § 61-328. *Id.*

ICIP acknowledges that an increase in overall transmission revenues would "result in a reduction to native load retail rates." *Id.* at 3. However, ICIP contends that a "reduction in retail rates . . . could cause the Commission to overlook other aspects of the transaction that are likely to *increase* Idaho Power's retail rates." *Id.* at 5 (emphasis original). ICIP suggests the transaction could lead to "increased costs of transmission upgrades" which, in turn, "could result in increased rates for native load customers." *Id.* at 3.[4] ICIP does not discuss whether this resulting rate increase would be "by reason of [the] transaction," as contemplated in *Idaho Code* § 61-328(3)(b), or instead a more indirect result.[5] ICIP concludes that the complexity of the transaction warrants delay of Commission action "until after FERC has imposed any conditions or restrictions on the transaction." *Id.*

Alternatively, ICIP requests that the Commission condition the transaction's approval on an "immediate inclusion of the near-term benefits of the transaction in Idaho Power's retail rates." *Id.* at 5. ICIP notes, with disapproval, that Idaho Power "proposes not to pass the near-term benefits of the increased transmission revenues onto its retail ratepayers." *Id.* at 6. ICIP thus asks that the Commission require "the revenue requirement associated with Idaho Power's transmission rate revenues be updated to immediately pass the savings onto Idaho Power's retail ratepayers." *Id.* at 7.

C. Idaho Power and PacifiCorp's Joint Reply

1. Staff's Recommendation to Flow Benefits Back to Customers when OATT Rates Change

In their joint reply, the parties address Staff's recommendation that financial benefits be flowed back to customers through Idaho Power's PCA and PacifiCorp's ECAM, respectively, as soon as OATT rates change. Reply at 3. The parties state that the PCA and ECAM currently track deviations between the parties' transmission wheeling expenses, "as compared to their respective normalized levels of third-party transmission expenses included in base rates." Reply at

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[4] ICIP argues that the parties' use of net book value (to show that the transaction will not increase rates) ignores this possibility. ICIP Comments at 3.

[5] ICIP notes that Idaho Power admitted the "costs associated with future upgrades were not included in the revenue requirement analysis." ICIP Comments at 5-6 (citing Idaho Power's Response to ICIP Prod. Req. No. 19(d)).

3. Transmission wheeling *revenues*, the parties assert, "are not related to third-party transmission wheeling expenses." *Id.* "Because neither Idaho Power nor PacifiCorp update[] base rates annually for changes in transmission rate base and transmission expenses, it is inappropriate to track only changes in transmission revenues through the parties' respective power cost mechanisms without a corresponding tracking of changes in transmission costs." *Id.* at 4. The parties note the Commission has agreed that tracking of transmission revenues "cannot occur until a base level of transmission revenues is established in Idaho Power's next general rate case." *Id.* (citing Order No. 32821 at 13).

The parties further note that Idaho Power's revenue requirement analysis assumes FERC will approve its OATT rate computation, which contemplates termination of the Legacy Transmission Agreements to become effective October 2015. *Id.* at 5. If FERC does not approve Idaho Power's proposed OATT formula rate, the result – the parties caution – may be "a lower OATT rate and under recovery of transmission system costs for Idaho Power" until the next OATT collection period (beginning October 2016). *Id.* The parties thus suggest that if the Commission "wishes to track differences in transmission revenues from some base amount as proposed by Staff, it should allow for a symmetrical tracking of any increases or decreases." *Id.*

2. Staff's Reporting Recommendations

Regarding compliance filings and documentation recommended by Staff, the parties largely concur. The parties agree to file "all final documents pertaining to the asset transfer, including the documents relating to the true-up at closing, the final journal entries, as well as the updated list of the parties' common equipment." Reply at 5. The parties also agree to submit their transmission loss allocation methodology to the Commission, once it is completed, for informational purposes only. *Id.* at 6.

As to annual filings, Idaho Power agrees to file a report within the first year after closing showing "the changes in transmission revenues"; PacifiCorp agrees to file a report showing "the change in wheeling expenses as a result of the asset exchange." *Id.* However, the parties assert that beyond the first year after closing, "the impact of the asset exchange on the OATT formula rate and wheeling expenses will be more difficult to measure." *Id.* Noting that Idaho Power's annual OATT formula rate change is publicly available, the parties contend there is no need for ongoing annual reports. *Id.*

3. Reply to ICIP's Comments

Regarding ICIP's Comments, the parties state that ICIP has had access to "the Parties' analyses, supporting documentation, and rationale" for the proposed transaction since December 2014. *Id.* at 7. The parties also note that ICIP actively participated in discovery, requesting and receiving information and clarification about the transaction from the parties. *Id.* The parties contend that nonetheless, "ICIP offered no meaningful analysis, evaluation, or other evidence in its Comments to support its underlying contention" that the proposed transaction will, or has potential to, adversely impact Idaho customers. *Id.*

About ICIP's request that the Commission defer action, the parties point out that the JPSA and JOOA, by their own terms, "are only effective and implemented upon [their] approval and closing." *Id.* at 8. The parties dispute ICIP's assertion that "significant opposition" has been voiced in the FERC proceeding, noting that only one party formally protested the transaction, and in that protest "raised a number of issues that demonstrate its fundamental misunderstanding" of the transaction, Legacy Agreements, and open access principles. *Id.* at 8, n. 2. Any deferral by the Commission, the parties contend, "would result in unnecessary delay to the detriment of the parties who have satisfied their burden under *Idaho Code* § 61-328. The parties thus urge the Commission to disregard ICIP's request to defer action as without merit. *Id.* at 7-8.

As to ICIP's proposal to share near-term benefits of the transaction with customers, the parties refer to their response to Staff comments proposing the same. *Id.* at 8.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over Idaho Power and PacifiCorp, and the issues raised in this matter under the authority and power granted it in Title 61 of the Idaho Code, specifically *Idaho Code* §§ 61-129, 61-328, and 61-501, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.* We have reviewed the record in this case, including the Application and its attachments, which include Direct Testimony of Lisa Grow, David Angell, Richard Vail, and Gregory Duvall; the comments of Staff and ICIP; and the joint reply by the parties. Based on our review of the record, we make the following findings:

1. *Idaho Code § 61-328(3) Requirements Satisfied*. Under *Idaho Code* § 61-328, to obtain Commission-authorization for their transaction, the parties have the burden of showing that: (1) the parties' proposed transaction is consistent with the public interest; (2) the cost of and rates for supplying service will not be increased due to the transaction; and (3) the parties have a bona

fide intent and financial ability to operate and maintain their respective properties and assets in the public service. *Idaho Code* § 61-328(3). We find the parties have established these three elements, and the results of this asset exchange are fair, just and reasonable.

On our review of the record, we are satisfied rates will not increase as a direct result of the transaction, and that the parties have demonstrated a bona fide intent and ability to operate and maintain their properties and assets in the public service. We find that the increased operational flexibility resulting from the transaction will: (1) ensure more efficient management of system upgrades; (2) facilitate service of expected load growth; and ultimately (3) improve reliability for customers. We therefore find the transaction to be consistent with the public interest. Accordingly, we find the parties have met their burden under *Idaho Code* § 61-328(3), and we authorize the proposed transaction, subject to conditions discussed below.

2. <u>Deferred Action Unwarranted</u>. ICIP argues that authorization of the transaction should be deferred pending completion of the parties' FERC proceedings. Although ICIP cites the relevant statutory provision, ICIP fails to show that the requisite elements were not satisfied. ICIP suggests the transaction may "result in increased costs of transmission upgrades . . . which could result in increased rates for native load customers." ICIP Comments at 3.

ICIP further contends that, due to the complexity of the parties' transaction, it is unclear what effect the outcome of FERC proceedings may have. ICIP Comments at 4. ICIP suggests it would be mere hypothesis to predict the impact of economic benefits – resulting from the transaction – to native load retail customers, thus "a ruling on the transaction prior to issuance of FERC's determination . . . will necessarily be an advisory opinion." *Id.* However, ICIP does not argue that economic benefits to ratepayers somehow represent a rate increase, as proscribed in *Idaho Code* § 61-328(3)(b). Nor does ICIP specifically assert that the statutory requirement is unsatisfied. Rather, ICIP raises a general concern about the complexity of the proposed transaction. *See id.* at 3. Transmission upgrades can and will be reviewed for prudency in future rate cases. Moreover, we are not convinced that the complexity of the transaction or unpredictability of FERC proceedings warrants delay. Our findings are sufficiently supported by the record and consistent with the requirements of Section 61-328(3). Thus we approve the transaction subject to the following conditions.

3. Conditions to Transaction's Approval. We find it appropriate and reasonable to impose conditions regarding: (a) financial benefits resulting from the exchange; and (b) reporting requirements. *See Idaho Code* § 61-328(4).

(a) *Financial Benefits from the Exchange*. Both Staff and ICIP recommended the Commission require the parties to flow financial benefits from the exchange to customers. Staff Comments at 10-12; ICIP Comments at 5-8. Staff proposed that the benefits be flowed to customers through the parties' cost adjustment mechanisms (PCA and ECAM), as soon as the OATT rates change. Staff Comments at 10-12. Staff suggested in the alternative, that increased "revenue amounts be deferred in a regulatory account, and flow[ed] back to customers in the next general rate case." Staff Comments at 11. In their reply, the parties noted that this Commission has found it "reasonable . . . to include both transmission revenue and expense differences when calculating future PCAs," but has acknowledged that "this cannot occur until a base level of third-party transmission revenues is established in the Company's next rate case so that deviations may be tracked." Reply at 4, *citing* Order No. 32821 at 13.

We agree that the financial benefits of the exchange in this case should be flowed to customers. However, consistent with our prior Order No. 32821,[6] we find that a base level of third-party transmission revenues must first be established through a general rate case before changing the PCA methodology. We also want to be consistent with Order No. 32540, in which we allowed recovery of transmission costs associated with the ratemaking treatment of three Legacy Agreements in a FERC transmission rate case.

The Commission has wide discretion to establish accounting systems to defer and pass benefits to customers from discrete transactions. *Idaho Code* § 61-524; *see* Order No. 33304. The Commission also has authority to impose conditions on the transaction in this case. *Idaho Code* § 61-328(4). Thus, we find it appropriate and direct Idaho Power to establish a regulatory deferral account for transmission revenues resulting specifically from the transaction and its resulting change in the OATT rates.

The record is not as clear for the treatment of reduced expenses to PacifiCorp customers. We note that PacifiCorp has not previously deferred transmission costs due to the Legacy Agreements for future recovery. To further evaluate the reduced wheeling expenses

[6] We note that Order No. 32821 concerns suggested ongoing changes to the PCA method. The tracking of benefits in this case relates to this specific transaction and thus does not apply to all other changes in transmission revenues.

associated with this transaction, we direct PacifiCorp to establish a regulatory account deferring these reduced wheeling expenses. Proper regulatory treatment will be determined in a future rate case when the details are known.

(b) *Reporting Requirements.* We direct the parties to file final documents pertaining to the asset exchange, including:

- documents relating to the true-up at closing;
- the final journal entries;
- the updated list of the parties' common equipment;
- the parties' common transmission line loss methodology, once completed; and
- a yearly report beginning within the first year after closing, showing (for Idaho Power) changes in transmission revenues, and (for PacifiCorp) the change in wheeling expenses

We direct Idaho Power to provide annual reports of the revenues going into the deferral account ordered herein, and the deferral balance. We also require PacifiCorp to provide annual reporting of the deferral account for reduced wheeling expenses related to the transaction. Recognizing that these annual reports are transaction-specific, they will not be required indefinitely. Once the change in transmission revenues and wheeling expenses are reflected in base rates, the parties may request that these annual reports no longer be required.

O R D E R

IT IS HEREBY ORDERED that Idaho Power and PacifiCorp's Application for authority to exchange certain transmission assets is approved subject to the conditions outlined above.

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. 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 5th day of June 2015.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

KRISTINE RAPER, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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