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Attorney for Rocky Mountain Power

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**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. 07-035-____
APPLICATION**

Pursuant to Utah Code §54-4-23, Rocky Mountain Power, a division of PacifiCorp (“RMP” or the “Company”), hereby applies to the Public Service Commission of Utah (“PSCU” or the “Commission”) for an order (1) authorizing the Company to transfer its undepreciated net investment of approximately \$8.9 million in the Powerdale Plant from Federal Energy Regulatory Commission (“FERC”) Account 101, Electric Plant in Service, to FERC Account 182.2, Unrecovered Plant and Regulatory Study Costs, (2) permitting the Company to record Powerdale decommissioning costs estimated to be approximately \$6.3 million to FERC Account 182.2 and (3) establish amortization periods for these amounts.

Powerdale costs associated with the \$8.9 million electric plant in service are currently being recovered in rates. Any incremental cost impact resulting from approval of this application will be addressed in the Company’s next general rate case, including the recovery of the decommissioning costs.

In support of this Application, RMP states as follows:

1. Rocky Mountain Power does business as a public utility in the State of Utah and

is subject to the jurisdiction of the Commission with regard to its public utility operations. Rocky Mountain Power also provides retail electricity service in the states of Idaho and Wyoming and PacifiCorp provides retail electric service in California, Oregon and Washington as Pacific Power.

2. This Application is filed pursuant to Utah Code §54-4-23, which authorizes the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction.

3. Communications regarding this Application should be addressed to:

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In addition, it is respectfully requested that all formal correspondence and Staff requests regarding this material be addressed to:

By email (preferred)	datarequest@pacificorp.com
By regular mail	Data Request Response Center PacifiCorp 825 NE Multnomah, Suite 2000 Portland, OR 97232
By facsimile	(503) 813-6060

Informal inquiries may be directed to Dave Taylor at (801) 220-2923.

BACKGROUND

4. On November 7, 2006, the 6-MW Powerdale generation facility (the “Powerdale Plant”) was severely damaged by flooding and debris flow. Exhibit 1 to this Application contains photographs showing the extent and severity of the damage.

The Company has analyzed the relative cost-effectiveness of repairing the flood damage to the Powerdale Plant now or retiring the plant before its current FERC-mandated decommissioning date of April 1, 2010. Such economic analysis demonstrates that early retirement is the most cost-effective option for RMP customers.

5. Powerdale is located in north-central Oregon on the Hood River, south of its confluence with the Columbia River, in Hood River County. Constructed in 1922 and 1923, the major components of Powerdale include a small diversion dam (“Powerdale Dam”) and reservoir (with less than 5 acre-ft of storage capacity), a 3-mile-long water conveyance system, and a single-unit, 6,000-kW powerhouse. Additional components include five vertical traveling fish screens located at the intake structure of the conveyance system at the west abutment of the dam. A 19-pool fish ladder is located at the east abutment of the dam.

The Company initiated the federal relicensing process for Powerdale in 1995. On February 27, 1998, the Company filed an application with FERC for a new license to continue operating the project. In December 2001, FERC released an Environmental Assessment (“EA”) discussing the effects of the project. On February 1, 2002, the Company filed a Motion to Abey License Proceedings with FERC, because operation of the project under terms and conditions set forth in the EA would not be economical. In July 2002, the Company released a draft decommissioning plan.

In 2003, the Company filed with the FERC a settlement agreement among PacifiCorp and many other parties addressing the interim operation and decommissioning of Powerdale. In November 2005, FERC adopted this settlement agreement and issued a removal order (“Removal Order”) for Powerdale, which (1) amended the project’s annual license to permit continued generation and incorporate proposed protection, mitigation and enhancement

(“PM&E”) measures for a period lasting until April 1, 2010; (2) required the Company to cease generation of power on April 1, 2010; (3) provided for the removal of the project and implementation of associated PM&E measures by February 29, 2012; and (4) dismissed the application for relicensure. Copies of the Removal Order and the Settlement Agreement Concerning the Interim Operation and Decommissioning of the Powerdale Hydroelectric Project (the “Settlement Agreement”) are provided as Exhibit 2.

Pursuant to the Removal Order, the Company now has a plan to commence decommissioning of Powerdale in April 2010. Section 5 of the Settlement Agreement approved in the Settlement Order, however, addressed the possibility that a catastrophic event (such as the November 7, 2006 flood) could render continued operation of the plant uneconomic before that date. Under Section 5, entitled “*Early Cessation of Generation; Early Decommissioning,*” upon the occurrence of a catastrophic event, the Company may cease generating power with notice to the parties and necessary FERC approvals. Such a decision limits the Company’s interim operation responsibilities under the Removal Order and permits RMP to commence decommissioning prior to April 2010. On February 1, 2007, the Company sent its letter to the FERC describing the flooding event, requesting to cease generation immediately and affirming that it will defer consideration of beginning formal decommissioning activities prior to April 2010 until it has consulted with the settlement parties identified in Exhibit 2 Part 2. On February 8, 2007, the FERC issued its approval letter stating, “In light of the reasons stated in your letter, your request to cease generation at the Powerdale Project is granted.” Copies of the Company’s February 1 letter to the FERC and the FERC February 8 approval letter are provided as Exhibit 3.

ANALYSIS

6. As shown in Exhibit 1, the Powerdale Plant sustained considerable damage during the November 7, 2006 flood, including failure of the ten-foot diameter flowline in two locations and flooding of the powerhouse, switch yard, and garage/shop area. As a result of the flooding, the river channel shifted substantially, isolating the tailrace from the river channel. The tailrace channel cannot be effectively dredged because the elevation of the river channel is now higher than the tailrace elevation due to significant sediment deposition in the river.

The Company has and will continue to incur project stabilization costs and replacement power costs associated with the flooding of the Powerdale Plant, neither of which are covered by this Application.

7. RMP has conducted an economic analysis to determine whether to repair and operate the plant until 2010 or retire it now. This analysis is based on a comparison of the total costs required to retire the Powerdale Plant versus total costs to repair and operate it. The analysis demonstrates that retirement is an overall lower cost-to-customers alternative than repair/operation by approximately \$1.611 million. Therefore, RMP intends to retire the plant assuming the Commission approves this Petition. The Company compared the following two options:

Option 1. Repair/Operation: Repair and reconstruct the Powerdale Plant and operate it until decommissioning in April 2010 according to the terms of the FERC Removal Order. This analysis assumed that the total capital cost to repair the plant was approximately \$3.7 million; that an additional \$20,000 O&M cost would be incurred for tailrace dredging; that the plant would operate from July 2007 to April 2010 and produce 5,426 MWh in 2007, 16,189 MWh in 2008 and 2009 and

9,231 MWh in 2010.

Option 2. Retirement: Stabilize the flooded area for public safety and keep the plant shut down until final decommissioning while providing the foregone power from other sources. This analysis assumed a \$69,000 saving in O&M cost relative to Option 1 and replacement power priced according to the September 30, 2006 Company Official Market Price Projection.

For each option, the Company calculated the present value of the revenue requirement ("PVRR") of the option over the period until the planned decommissioning in April 2010. Analyses of both options included assumed receipt by the Company of the maximum estimated property insurance payment of approximately \$745,000. The difference between the present values of these two PVRR streams (the "PVRR(d)") established the option with the lowest long-term cost to customers.

The results of this analysis are summarized in Exhibit 4 which shows that the PVRR of Option 1 is approximately \$4.046 million and of Option 2 is \$2.435 million producing the PVRR(d) favorable to Option 2 of \$1.611 million stated above. The cost assumptions upon which this analysis is based, as well as other Powerdale Plant costs, are detailed in Exhibit 5. Exhibit 5 details assumptions based on total plant costs.

ACCOUNTING TREATMENT

8. RMP seeks an accounting order addressing two categories of costs resulting from the November 7, 2006 flood: (1) undepreciated investment in the Powerdale plant and (2) Powerdale decommissioning costs.

This Application proposes retirement of the Powerdale Plant based upon the outcome of the Company's cost-effectiveness analysis. The Company's decision to retire the plant will

result in the potential impairment of the Powerdale Plant physical and intangible assets in accordance with FAS 90, "Regulated Enterprises-Accounting for Abandonments and Disallowances of Plant Costs." This accounting treatment will require PacifiCorp to write-off its undepreciated plant investment in the absence of the requested accounting treatment from its commissions.

9. Pursuant to Utah Code §54-4-23, RMP proposes to address any incremental revenue requirement impacts of these costs in its next general rate case. RMP proposes to account for the costs by recording the decommissioning costs and the undepreciated portion of Powerdale's plant assets in FERC Account 182.2, Unrecovered plant and regulatory study costs.

10. The net book value of the tangible and intangible Powerdale Plant assets at December 31, 2006, equals 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. The Company will amortize this balance at a rate equal to the depreciation rate used for the Powerdale balance in FERC Account 101, or 4.2%, which is currently included in rates. The Company anticipates requesting a change in this rate with the approval of a new depreciation study to be filed in September 2007 with an anticipated effective date of January 1, 2008. The Company anticipates requesting a three-year amortization period for the remaining balance of the unrecovered net plant balance in that study.

The Company requests authority to record approximately \$6.3 million of decommissioning costs, with provision for final reconciliation for final actual expenditures. This amount represents The Company's current best estimate of the costs of complying with FERC's Removal Order in light of the Powerdale Plant flood. The Company also 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 costs as a current period expense.

If this application is approved as supported by the Company, Powerdale decommissioning costs will be accounted for as follows (all dollar figures are approximate):

- An additional liability of approximately \$6.3 million will be recognized on the Company's books reflecting the Company's best estimate of the total costs to be incurred in complying with FERC's Removal Order in light of the Powerdale Plant flood.
- The \$6.3 million expense associated with the recognition of the liability will be deferred as a regulatory asset in FERC account 182.2, rather than being recognized as a current period expense.
- The Company requests a three-year amortization of the decommissioning cost regulatory asset upon inclusion in rates in the next rate case. Inclusion in rates over the three-year period allows the company to collect the funds necessary to pay for the decommissioning of the plant when it begins in 2010.
- As decommissioning occurs, the costs will be accounted for as a reduction in cash and a corresponding offsetting reduction in the decommissioning liability.

11. Pursuant to the Revised Protocol, RMP's inter-jurisdictional cost allocation methodology, hydro-related costs are initially allocated ratably to each jurisdiction served by PacifiCorp. Under the Revised Protocol allocation method, the Utah-allocated share of the undepreciated investment in the Powerdale Plant is approximately \$3,549,000, and the Utah-allocated share of the decommissioning costs is approximately \$2,505,000. These estimates are

calculated based on conditions as of the Company's March 2006 semi-annual filing and will change over time as allocation factors change.

Under the Revised Protocol allocation method, subsequent to the initial system-wide allocation, hydroelectric generation-related costs are included in the calculation of the Embedded Cost Differential, which assigns the majority of hydroelectric costs to the western side of the Company's system. In order to align cost responsibility with benefits received, the costs for which this Application seeks an order would be included in the calculation of the Embedded Cost Differential for future rate-making purposes based on the continued use of the Revised Protocol.

WHEREFORE, Rocky Mountain Power respectfully requests that, in accordance with Utah Code §54-4-23, the Commission issue an order authorizing the Company to transfer the remaining undepreciated net book value of the Company's Powerdale Plant to a regulatory asset account, to record the costs related to decommissioning the Powerdale generating facility to the same regulatory asset account and establish a three-year amortization period for these balances as described in this Application.

Respectfully submitted this 21st day of March, 2007.

By

Dean Brockbank
Attorney for Rocky Mountain Power