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Director, Division of Public Utilities

Memorandum

TO: Utah Public Service Commission

FROM: Division of Public Utilities
Constance B. White, Director
William Powell, Manager
David Thomson, Technical Consultant
Brenda Salter, Utility Analyst II

DATE: May 25, 2007

RE: Docket 07-035-14 – Application of Rocky Mountain Power (RMP), a Division of PacifiCorp, for an Accounting Order for Costs related to the Flooding of the Powerdale Hydro Facility.

I. RECOMMENDATION:

The Division at this time is not making a recommendation as to the request under the Application. However, prior to the Commission's Noticed Settlement Conference on Thursday, June 28, 2007, the Division has agreed to put forth a statement of position on this application (See background information below).

The Division, at the same time it files its statement of position for the above application, will also be filing statements of position on the other two deferred accounting applications in Dockets No. 06-035-163 (Grid West Costs) and 07-035-04 (MidAmerica Transaction).

II. INTRODUCTION:

On March 21, 2007, RMP filed an application for an accounting order for costs related to the flooding of the Powerdale Hydro Facility. RMP requested a deferred accounting order for the Powerdale Facility's undepreciated net investment of approximately \$8.9 million and the decommissioning costs estimated to be \$6.3 million. RMP approximates Utah's portion to be 39% of these costs (\$6.05 million). RMP is requesting the Commission to issue an order authorizing RMP to transfer the remaining undepreciated net book value of the Company's Powerdale Plant and costs related to decommissioning the Powerdale generating facility to Account 182.2, Unrecovered Plant and Regulatory Study Costs. Second, the Company requests a three-year amortization period for the above balances.

The purpose of this memo is, not only to inform the Commission of issues involved, but to provide some information to the Commission about what is happening with this application.

III. BACKGROUND:

Shortly after the filing of the Powerdale Hydro Facility deferred accounting request, a Technical Conference was held on April 13, 2007 regarding this application and the two previously filed deferred accounting requests (to defer the costs related to the MidAmerican Energy Holdings Company "MEHC" transaction, Docket No. 07-035-04, and to defer the costs of loans made to Grid West, Docket No. 06-035-163).

Because the deferred accounting applications had similar issues, technical conferences, settlement discussions, and scheduling notices have included all three Commission Dockets for the above applications. However, the facts around each application and the issues relating to deferred accounting treatment are being considered separately for each Application by the Division and other interested parties.

Due to time constraints and the timing of the Powerdale application submission, only a cursory review of the facts of the Powerdale application took place in the first technical conference for the deferred accounting applications conducted on April 13, 2007. Because of the interest around the issues relating to the applications and in order to complete the review of the Powerdale application, it was felt that an additional technical conference was needed. Thus, a second scheduling conference for the deferred accounting applications took place on April 20, 2007.

At the Scheduling Conference, a date was set for a Technical Conference on May 8, 2007. The scheduling Order requested that RMP provide a Position Statement concerning the deferred accounting requests by May 3, 2007. The Scheduling Order required the Company to submit a written statement of position on each of the following items for each application:

1. The Company's position with respect to the scope of view that the Commission should undertake with respect to each application.
2. The amortization period that the Company is requesting and when the amortization should start for each application.
3. Why the applications do not violate the 2006 general rate case settlement and the MidAmerican Energy Holdings Company Commitment No. 22 related to its acquisition of PacifiCorp.
4. An explanation of how the Company anticipates treating the Powerdale costs under the multi-state protocol.

The Order also noted that the parties could choose to convert the technical conference into a settlement conference. The required Statement of Position was filed by RMP on May 3, 2007.

On May 8, 2007, a Technical Conference was held to review the Powerdale application and RMP's Position Statements as to its deferred accounting applications. RMP provided an agenda and led the discussion. At the conference there was a further discussion of the three deferred accounting request issues and a further review of the facts of the Powerdale application. Settlement discussions were initially started at the end of the conference, but it was determined that the Division and the Committee of Consumer Services (Committee) needed to put forth their statements of position on the deferred accounting applications before settlement discussions could move forward or become possible.

The parties agreed to meet on June 28, 2007 for a Settlement Conference. The notice of the settlement conference was issued by the Commission on May 9, 2007. In the interim the Division and the Committee agreed to put forth their statements by June 26, 2007 outlining their positions on the deferred accounting applications.

IV. ISSUES

Preliminarily the Division believes that in order for costs to be deferred they should meet certain specific guidelines. The events generating the deferred costs must be both unforeseen and extraordinary. Unforeseen are events that had impacts that could not be anticipated in the ratemaking process. Costs should not be normal operating costs or period costs. Costs should be extraordinary in nature in that the events are specific, unusual, unique, infrequent, material, not ongoing, and again not a part of normal operations.

The event should provide a future net benefit for ratepayers. The event providing future net benefit to ratepayers must be specific, material, match revenues and expenses and provide intergenerational equity. As to the time limitations of the deferral, if granted, the Division believes the Commission should order when the amortization should begin and the time period of the amortization. Such timing should take into consideration the matching of the costs to benefits.

cc: Rocky Mountain Power
Committee of Consumer Services
Michael Ginsberg