

Agenda Date: July 26, 2006  
Item Number: A2

**Docket:** UE-060703  
Company Name: PacifiCorp d/b/a Pacific Power and Light Company

Staff: James Russell, Regulatory Manager  
Gene Waas, Assistant Director, Energy Section

### **Recommendation**

Issue an Order allowing PacifiCorp d/b/a Pacific Power and Light Company to transfer Washington's share of a loan to Grid West from account 124 – Other Investments, to Account 186 – Miscellaneous Deferred Debits, and to begin amortization of this balance over five years, beginning July 1, 2006, without interest. In addition, order PacifiCorp to make a showing in its next general rate case why the expense associated with the amortization of this loan balance should be included in the calculation of Washington customer's rates.

### **Background**

On May 1, 2006, PacifiCorp d/b/a Pacific Power and Light Company (PacifiCorp or Company) filed an accounting petition for authorization, pursuant to WAC 480-07-395, to transfer the balance of a loan to Grid West from Federal Energy Regulatory Commission (FERC) asset Account 128 – Other Special Funds, to Account 182.3 – Other Regulatory Assets. PacifiCorp filed this petition in response to Grid West's Board of Directors voting to request a plan for dissolution (April 11, 2006).

PacifiCorp is requesting accumulation of interest on the transferred loan balance and requesting that this balance remain in suspense in Account 182.3 pending ultimate resolution of recovery in its next general rate case. As discussed below, staff opposes this specific accounting.

PacifiCorp has been actively involved in the development of a Pacific Northwest Regional Transmission Organization (RTO) aimed at meeting the policies of the FERC<sup>1</sup> promoting competitive electric markets. Grid West (a successor to "RTO West") is a non-profit entity created for the purpose of establishing a Northwest RTO. Among its members were PacifiCorp, Avista, Bonneville Power Administration, British Columbia Transmission Corporation, Idaho Power Company, NorthWestern Energy, Portland General Electric Company, Puget Sound Energy, Inc., Sierra Pacific Power Company and Nevada Power Company.

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<sup>1</sup> FERC Order 888 encouraged development of independent system operators, and FERC Order 2000 required transmission owners to develop and submit a proposal to establish an RTO, or to explain why such an organization could not be developed.

PacifiCorp signed an initial funding agreement with the other members to provide funding for the start-up phase of Grid West. Start-up costs included retaining experts, facilitators and other expenses associated with transmission studies and stakeholder participation. PacifiCorp currently has on its books a total Company loan to Grid West of approximately \$2.7 million (including interest of \$.4 million).

PacifiCorp seeks authority from this Commission to transfer Washington's share (approximately \$190,000) of this loan to Account 182.3. PacifiCorp has similar requests before the Idaho, Oregon and Wyoming Public Utilities Commissions for those state's share<sup>2</sup>.

On May 23, 2006, the Industrial Customers of Northwest Utilities (ICNU) filed a Petition to Intervene in this Docket. ICNU opposes PacifiCorp's request to "defer" these loan balances. ICNU opposes this Application and states that, "it violates the prohibition against retroactive ratemaking, departs from the Commission's precedent regarding deferred accounts, seeks the recovery of imprudent costs, and is inconsistent with the Commission's policy regarding the recovery of RTO-related costs." On June 23rd, ICNU filed a letter again urging the Commission to deny PacifiCorp's application. ICNU's petition and letter are attached for reference.

The main thrust of ICNU's argument is that these loan amounts are prior period "costs" for which PacifiCorp is required to request advanced approval from the Commission to defer. These amounts at issue are not period "costs", but loans made to Grid West with the expectation that they would be paid back, with interest, at the earlier of: (1) the date Grid West secured sufficient third party financing, or (2) the date set for the commencement of transmission services by Grid West.

The Commission's precedents regarding deferred accounting petitions indicate that the filing of an accounting petition establishes the date upon which "costs" (or "expenses") can begin to be deferred (which parallels the prohibition against retroactive ratemaking). This petition seeks transfer from one asset account to another, not to defer costs that were booked prior to the filing of the petition. Immediately upon learning of the fact that Grid West would be dissolved, PacifiCorp took action to file this petition.

The Commission has stated that RTO costs are not in and of themselves "imprudent". In Docket UE-050684, PacifiCorp's last general rate case, the Commission addressed the recovery of RTO operating expenses stating that. "As a general rule, expenses for RTO-development are ordinary, necessary and reasonable so long as the expenses are incurred to fulfill the utility's obligation to operate and invest in facilities necessary to serve the public. No party has argued that it was, or is, imprudent for PacifiCorp to explore forming an RTO."<sup>3</sup>

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<sup>2</sup> The Idaho, Oregon and Wyoming Commissions are addressing this issue and have not made any rulings.

<sup>3</sup> See Order 04, Docket UE-050684, April 17, 2006, ¶136.

ICNU subsequently filed a letter in opposition on June 23, 2006, reiterating and expanding its arguments against PacifiCorp's application. ICNU states in its letter that, "PacifiCorp should have sought to recover these expenses in the company's general rate proceeding when these costs were incurred, not four years after the fact." However, the "costs" at issue here are developmental costs which were required to be capitalized. It was expected that these amounts financed would be fully paid back, so any amount PacifiCorp would have sought to recover in general rates at that time certainly would have faced an argument of double recovery<sup>4</sup>.

ICNU also argues that, "Utilities could take advantage of this (calling "costs" "loans") by distinguishing costs as "loans" and seeking deferral of these "loans" that they would otherwise not be entitled to recover." Generally Accepted Accounting Principles (GAAP) prohibits such gamesmanship.

Given that these amounts are loans (now in default) staff does not believe that PacifiCorp's application violates the prohibition against retroactive ratemaking, nor would set bad precedent (under staff's proposal) as claimed by ICNU. For the foregoing reasons, and in order to resolve the issue brought about by this Petition, staff recommends that the commission issue an order allowing PacifiCorp to transfer the loan balances to Account 186 – Miscellaneous Deferred Debits and begin amortization of this amount beginning July 1, 2006, without interest over five years.

Staff recommends that the commission approve transferring this loan to Account 186 – Miscellaneous Deferred Debits because the ultimate recovery of this loan is a matter to be determined in a future proceeding. It does not rise to the level of a "regulatory asset", where the recovery from ratepayers is certain.

If PacifiCorp files a general rate case that includes amortization of this loan balance, then the Commission should require PacifiCorp to identify where and how much amortization associated with this loan is included within the test period operations. In addition, the commission, in its order, should require PacifiCorp to make a showing why ratepayers should bear this expense. ICNU's arguments regarding the ultimate issue of recovery would be preserved.

### **Conclusion:**

For the foregoing reasons, staff recommends that the commission issue an Order allowing PacifiCorp d/b/a/ Pacific Power and Light Company to transfer Washington's share of a loan to Grid West from Account 128 – Other Special Funds, to Account 186 – Miscellaneous Deferred Debits, and to begin amortization of this balance over 5 years, beginning July 1, 2006, without

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<sup>4</sup> ICNU argued in PacifiCorp's last rate case that test period RTO expenses should be removed and deferred to be considered for inclusion in rates, if and when an RTO ever becomes operational and can be shown to provide benefits to Washington customers. Exh. 301-T as 22:15 – 23:2 (Selecky).

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Attachments