

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 10, 2006**

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: May 1, 2006

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: PACIFIC POWER AND LIGHT: (Docket UM 1257) Requests Deferred Accounting Treatment for loans associated with Grid West.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Pacific Power and Light's (PacifiCorp or company) request to defer costs associated with loans provided to Grid West at the FERC mandated rate of interest, pursuant to ORS 757.259(2)(e), effective the date the loans are written-off and become an expense, but not before March 23, 2006. Staff further recommends allowing the company to apply interest at its authorized cost of capital as of the date of the asset write-off to the amortization phase of the deferred amount. Ratemaking treatment to amortize these costs should be reserved for a ratemaking proceeding.

DISCUSSION:

On March 23, 2006, PacifiCorp filed an application requesting approval of deferred accounting treatment for loans made to Grid West for later consideration in a ratemaking proceeding.

PacifiCorp is one of seven utilities participating in the formation of Grid West; the others are Avista, Idaho Power, NorthWestern Energy, PGE, Sierra and British Columbia Transmission Corporation. Grid West was conceived as a nonprofit membership corporation engaged in development work to improve electricity transmission services and infrastructure for the region. In its operational stage it would be an independent transmission provider managing the use and expansion of the region's transmission grid.

PacifiCorp has been involved with Grid West and its predecessors, pursuant to FERC requirements and state policies encouraging competitive electric market development, since June of 2000. To date the company has loaned a total of \$2.7 million, including interest, in development funds to Grid West. This amount does not include any PacifiCorp staff development costs. Under the Grid West funding agreements, funds provided by the participating utilities are considered to be loaned amounts to be repaid with interest by Grid West when sufficient third-party financing becomes available, but not later than the commencement of transmission services.

PacifiCorp entered its Grid West Loans as a long term receivable on the balance sheet. The loans are not a "current" expense because in exchange for the loans, the company received loan receivables (in the form of promissory notes) as assets. The Grid West loans are accruing interest at a rate mandated by FERC which is different than the PacifiCorp authorized cost of capital.¹ Staff has reviewed the Grid West Funding work papers submitted by the PacifiCorp; the \$2.7 million that the company is asking to defer in this application includes approximately \$2.3 million in principal and \$400,000 in interest at the FERC rates. If, in the future, the Grid West Loans are no longer deemed to be recoverable, then Generally Accepted Accounting Principles (GAAP) would require the company to write-off a part or all of the receivables. If PacifiCorp writes-off the assets, the amount written-off becomes current expenses effective as of the date of the write-off pursuant to GAAP.

It is the Commission's policy to allow the company to defer costs at its authorized cost of capital (UM 1147). However, in this case, Staff recommends the company *only* be allowed to defer the principal balance of the loans with interest accruing at the FERC mandated rates for the following reason: If Grid West were to default on the promissory notes, PacifiCorp would have to write off the loans creating an expense whose value would only be the principal amount of the loans plus the accrued interest at FERC mandated rates. Then, Staff would recommend the Commission consider allowing the company to apply interest at its authorized cost of capital from the date the write-off becomes effective until the amortization phase. This would insure that the company would be allowed to request recovery in a future rate making proceeding, of the same amount it would have recovered contractually were Grid West to have paid all its debts. Staff further recommends that the amortization phase for these costs be reserved for later consideration in a ratemaking proceeding.

Staff has been notified by Intervening Parties, Industrial Customers of Northwest Utilities (ICNU) and Citizens' Utility Board (CUB) that they believe these costs are prohibited from deferral treatment pursuant to ORS 757.259. They argue that since these loans were issued prior to a deferral application, that under this statute, the

¹ A quarterly variable rate ranging from approximately 4% to 9%.

Commission may only authorize the deferral of costs beginning with the date of the company's deferral application.

Staff believes these loans are promissory notes on the balance sheet and not past or current expenses. They will become an expense only when they are in default and GAAP requires the company to write-off the uncollectible debts. The Attorney General supports Staff's opinion in this matter. Staff recommends the Commission allow PacifiCorp to defer costs associated with loans with interest accruing at the FERC mandated rate of interest until such time as these loans default and become a current expense. At that time, Staff recommends the company be allowed to accrue interest at its authorized cost of capital, currently at 8.057%.

Reasons for deferral:

The creation of a deferred account may avoid the need to adjust rates to reflect Pacific Power and Light's share of the Grid West funding obligation and will match appropriately the costs borne by and benefits received by customers pursuant to ORS 757.259(2)(e). Customers will benefit from the company's experience in investigating alternative pricing and governance structures. This knowledge will be useful in the development of future regional transmission operations as well as transacting business in markets governed by other transmission organizations.

Proposed Accounting:

PacifiCorp proposes to record the deferred amount as a regulatory asset in FERC Account 182.3, Other Regulatory Assets, with an off-setting credit to FERC Account 124, Other Investments.

PROPOSED COMMISSION MOTION:

The Commission approve Pacific Power and Light's request to defer costs associated with loans provided to Grid West at the FERC mandated rate of interest, pursuant to ORS 757.259(2)(e), effective the date the loans are written-off and become an expense, but not before March 23, 2006. Staff further recommends allowing the company to apply interest at its authorized cost of capital as of the date of the asset write-off to the amortization phase of the deferred amount. Ratemaking treatment to amortize these costs should be reserved for a ratemaking proceeding.