

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 27, 2007**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: February 20, 2007

TO: Public Utility Commission

FROM: Suzanne Smith

THROUGH: Lee Sparling, Marc Hellman and Michael Dougherty

SUBJECT: PACIFICORP: (Docket No. UI 256) Application requesting approval of 1) Geothermal steam pre-purchase agreement, and 2) Steam Delivery agreement between PacifiCorp and Intermountain Geothermal Company (IGC) a wholly-owned subsidiary of PacifiCorp.

STAFF RECOMMENDATION:

The Commission should approve the application of PacifiCorp (PacifiCorp or Company) for affiliated interest agreements with Intermountain Geothermal Company (IGC) subject to the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with IGC.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. PacifiCorp shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in cost. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

On December 6, 2006, PacifiCorp filed an affiliated interest application pursuant to

ORS 757.495 and OAR 860-027-0040. The Company is requesting approval from the Commission for a Geothermal Steam Pre-purchase Agreement (GSPA) and a Steam Delivery Agreement (SDA) between PacifiCorp and Intermountain Geothermal Company. IGC was a subsidiary of MidAmerican Energy Holdings Company (MEHC) and with the acquisition of PacifiCorp¹, all MEHC stock ownership and associated steam rights of IGC were contributed at no cost to PacifiCorp. Since IGC is a wholly-owned subsidiary of PacifiCorp, PacifiCorp and IGC are affiliated interests pursuant to ORS 757.015.

IGC produces geothermal brine for PacifiCorp's Blundell² plant from wells that tap a geothermal resource in fractured, crystalline rock. IGC provides approximately seventy percent (70 percent) of the steam supply to the Blundell geothermal electric generating unit located in Utah, which uses naturally created steam to generate electricity. PacifiCorp and IGC entered into a Geothermal Steam Prepurchase Agreement (GSPA) and a Steam Delivery Agreement (SDA) on March 21, 2006.

Under the terms of the GSPA, PacifiCorp prepurchased from IGC, and IGC agrees to deliver pursuant to the SDA, sixty nine and 34/100 percent (69.34 percent) of the Full Load Steam Requirements³ of the Electric Generating Unit for the term of the agreement. PacifiCorp also prepurchased from IGC, and IGC agreed to deliver, all geothermal Separator Fluid produced concurrently with the Prepurchased Steam.

Under the terms of the SDA, IGC will deliver all Prepurchased Steam and Supplemental Steam, as well as all Geothermal Injection Fluid related to such Prepurchased Steam, Supplemental Steam, and Geothermal Separator Fluid. The GSPA and SDA agreements are replacing a prior agreement (Production Payment Deed dated January 22, 1991) between PacifiCorp and IGC (when it was a wholly-owned subsidiary of MEHC), which provided for steam delivery and geothermal steam prepurchase.

Issues

Staff investigated the following issues:

1. Terms and Conditions of the Agreements

¹ Commission Order No. 06-121 (UM1209) granting approval of the acquisition of PacifiCorp by MEHC.

² The Blundell Geothermal plant is located near the middle of the Roosevelt Hot Springs participating area which is the steam producing area. The plant is a PacifiCorp asset. IGC provides PacifiCorp with the steam to generate electricity at the Blundell plant. This structure is similar to PacifiCorp's coal plant operations.

³ According to the application filed by the company: "the Full Steam Load Requirements of the electric Generating Unit are 392,000 pounds of steam per hour under rated turbine design conditions and at least 400,000 pounds of steam per hour at five percent turbine overpressure, after making any adjustments for steam pressure."

2. Transfer Pricing
3. Public Interest Compliance
4. Records Availability, Audit Provisions and Reporting Requirements

Terms and Conditions of the Agreements

Under the terms of the GSPA agreement, PacifiCorp agrees to prepurchase, and IGC agrees to deliver, 69.34 percent of the Full Steam Requirements of Electric Generating Unit continuing for the primary term ending January 22, 2021.

Under the GSPA, PacifiCorp paid to IGC in 1991, as the completed consideration for the Preurchased Steam and the prepurchase of Geothermal Separator Fluid, the sum of \$20,316,620. In addition, PacifiCorp has paid the Bureau of Land Management (BLM) royalties with respect to the pre-purchase amounts under the GSPA.

PacifiCorp recorded the original purchase of the Steam and Geothermal Separator Fluid to Account 101, Electric Plant in Service. PacifiCorp estimates its annual amortization expense for the assets to be \$0.8 million. This amortization expense is offset by an estimated \$0.6 million in Preurchased Steam Income recorded by IGC and included in PacifiCorp's results. The remaining balance of this asset is approximately \$14.1 million.

Under the terms of the SDA agreement, Intermountain will deliver all Preurchased Steam and Supplemental Steam as well as all Geothermal Separator fluid⁴ associated therewith, to the Delivery Point and will accept and reinject all Geothermal Injection Fluid related to such Preurchased Steam, Supplemental Steam, and Geothermal Separator Fluid for the primary term ending January 22, 2021.

PacifiCorp agrees to reimburse IGC for all operating, maintenance, and all applicable administrative and general expenses related to the delivery of Steam and Geothermal Separator fluid or reinjection of Geothermal Injection Fluid associated with the operation of the Electric Generation unit. PacifiCorp estimates its annual charge for routine services to be \$2.5 million. Staff did not observe any unusual terms and conditions of either agreement.

Transfer Pricing

PacifiCorp had prior agreements that were in effect prior to IGC and PacifiCorp becoming affiliated interests. As a result, the prior contracts were arms length, third-party contracts. These two new agreements are simply replacements to the existing agreements, dated January 22, 1991.

⁴ Fluid delivered at the liquid outlet of the Separator.

As previously mentioned, PacifiCorp will reimburse IGC for all operating, maintenance and all applicable administrative and general expenses related to the delivery of Steam and Geothermal Separator fluid or reinjection of Geothermal Injection Fluid associated with the operation of the Electric Generation unit. This is a cost-based approach and the Commission, in Order No. 91-513 (UI 105)⁵, has previously allowed a cost-based approach when affiliate activities were limited to a specific contract function.

Public Interest Compliance

PacifiCorp had prior third-party agreements with IGC (when it was a wholly-owned subsidiary of MEHC), which provided for steam delivery and geothermal steam prepurchase. These prior agreements are being replaced with the two new agreements resulting from implementation of MEHC Commitment 51.

MEHC Commitment 51 included the transfer, at no cost to PacifiCorp, of stock ownership of IGC and a commitment from MEHC that PacifiCorp's customers will not be harmed from the contribution to PacifiCorp of the IGC steam resources and stock.

Records Availability, Audit Provisions and Reporting Requirements

Order Condition Number 1, listed above in the Staff recommendation, affords the necessary Commission examination of PacifiCorp's records concerning this application.

Based on the review of this application, Staff concludes the following:

1. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.
2. Necessary records are available.

PacifiCorp has reviewed Staff's recommendation and does not object to the recommendation.

PROPOSED COMMISSION MOTION:

PacifiCorp's application requesting approval of a Geothermal Steam Pre-purchase Agreement and a Steam Delivery Agreement between PacifiCorp and Intermountain Geothermal Company, be approved subject to the three recommended conditions.

⁵ In the Matter of the Application of PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY, for an order approving a contract for mining services with Energy West Mining Company, an affiliated interest.