

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 10, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE November 9, 2006

DATE: March 15, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch, and Judy Johnson

SUBJECT: PACIFIC POWER & LIGHT COMPANY: (Docket UM 1284)
Application for Deferred Accounting Treatment of Certain Expenditures
Associated with the Bonneville Power Administration's Conservation Rate
Credit.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Pacific Power and Light's (PacifiCorp or company) request for authorization to defer expenses associated with Bonneville Power Administration's (BPA) Conservation Rate Credit (CRC), effective November 9, 2006, subject to conditions and reporting requirements outlined below.

DISCUSSION:

On November 9, 2006, PacifiCorp filed an application pursuant to OAR 860-027-0030 requesting to defer expenses associated with BPA's CRC program.

BPA shares the value of its low-cost federal hydroelectric power system with PacifiCorp's Oregon, Washington, and Idaho residential and small farm customers through BPA's Residential Exchange Program (REP). Pursuant to settlement agreements with PacifiCorp regarding the REP that expire on September 11, 2011, (REP Settlement), the company's residential and small farm customers receive bill credits on their electric bills.

BPA also provides credits to PacifiCorp in reimbursement for investments in eligible renewable resource or conservation programs. For the period from October 1, 2001 through September 30, 2006, these additional funds were managed through BPA's Conservation and Renewable Discount (C&RD) Program. On October 1, 2006, BPA

replaced the C&RD program with the CRC program. Like the previous C&RD program, the CRC program provides incentive payments to utilities for certain investments in conservation and renewable resources. Unlike the C&RD program, the new CRC program requires that investments in conservation and renewable resources be “incremental” or in excess of what the BPA utility customer is already required to provide by law or regulatory requirement, such as the 3% public purpose charge.

The REP Settlement is currently being challenged in the United States Court of Appeals for the Ninth Circuit. If the Ninth Circuit issues a ruling that modifies the REP Settlement, the CRC available to PacifiCorp could potentially be reduced. The company’s application states that it is eligible for \$2.57 million under the CRC plan for fiscal year (FY) 2007. In order to earn the maximum amount of CRC credit, the company expects to spend an incremental \$1.13 million on renewable projects and \$1.44 million in conservation efforts, company wide, in FY 2007. If a Ninth Circuit court ruling reduces the REP Settlement then payments to PacifiCorp from the CRC program may also decrease. If this were to occur the company might not be able to recover its incremental conservation and renewable expenses. PacifiCorp’s application for deferred accounting is to account for the incremental conservation and renewable resource investments made from a one year period starting November 9, 2006, to protect the company’s ability to recover these expenses if the REP Settlement is reduced.

Reasons for deferral:

PacifiCorp proposes to qualify for the conservation credit by investing in renewable projects and conservation efforts beginning in FY 2007. This deferral is necessary to appropriately match the costs borne by and benefits received by customers pursuant to ORS 757.259(2)(e). The company’s application states that investments in conservation and renewable energy projects that it intends to make under the CRC provide current benefits to customers by reducing load and diversifying resources, thereby minimizing the need for new supply side resources and providing greater long-term rate stability.

Estimate of amount:

Because BPA proposes to reimburse PacifiCorp’s incremental conservation and renewable resource investment activities on a dollar-for-dollar basis, the company does not expect to maintain a balance in the deferred account. However, the pending litigation in the Ninth Circuit could threaten BPA’s ability to reimburse PacifiCorp for these activities. On an annual basis, the company expects to receive CRC reimbursements for \$2.57 million in investments. Oregon’s share is currently \$1.48 million or 57.7% of the total. This is the maximum amount of the deferred account requested, should the litigation reduce the REP Settlement to zero.

Proposed accounting:

The Company proposes to record deferred amounts related to the conservation program expenditures in FERC Account 182.3, Regulatory Assets with an off-setting credit to FERC Account 242, Miscellaneous Current and Accrued Liabilities for payments received by BPA.

Staff Analysis:

Staff has reviewed the company's filing and generally supports additional investments in renewable energy and conservation. The company has stated that the conservation and renewable energy investments that will be made in the deferral period have not been finalized. Consequently, Staff proposes to require some conditions on the expenditures and detailed reporting on the deferral activity including the following:

1. The company will provide a report to the Commission as soon as practical after finalizing the investment plans. The report will, at a minimum, contain detailed information about the activities funded through the CRC and explain how the investments benefit Oregon customers in proportion to Oregon's 57.7 percent share of the CRC benefit.
2. The company will not pursue energy conservation programs that compete with programs offered by the Energy Trust of Oregon.
3. Only those expenses incurred after the request for a deferral on November 9, 2006, will be eligible for deferred accounting treatment.
4. The renewable projects and conservation efforts will be new incremental investments that meet the eligibility requirements of the CRC program as determined by the BPA.
5. The company will track and defer any savings it experiences due to implementation of energy efficiency measures funded through the BPA's CRC that result in a reduction in PacifiCorp's Oregon Operating costs.
6. Ratemaking treatment to amortize these costs will be reserved for a ratemaking proceeding.

PROPOSED COMMISSION MOTION:

PacifiCorp's request for authorization to defer expenses associated with Bonneville Power Administration's Conservation Rate Credit, effective November 9, 2006, subject to conditions, be approved.