PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I.D.# 6777

ENERGY DIVISION **RESOLUTION E-4096**

July 26, 2007

R E S O L U T I O N

Resolution E-4096. PacifiCorp's Request to Establish a Cost Memorandum Account for Decommissioning Costs Associated with the Powerdale Generation Facility.

By Advice Letter 342-E filed on March 30, 2007, and a supplemental Advice Letter 342-E-A filed on April 13, 2007. The Advice Letters are approved with modifications.

SUMMARY

This Resolution approves, with modifications, the request by PacifiCorp to establish a Cost Memorandum Account for decommissioning costs associated with the Powerdale Generation Facility (Powerdale), located in Hood River County, Oregon. PacifiCorp estimates decommissioning costs of $6.3 million out of which California's allocation of these costs is approximately $116,000. The modifications are as follows:

1) PacifiCorp may recover recorded costs in rates after it submits a request and makes showing of reasonableness, and receives approval by the Commission. The request shall be made by formal application, specifically by the inclusion in a future general rate case or another rate setting proceeding.

2) While PacifiCorp records the decommissioning costs on a monthly basis in the Cost Memorandum Account, it shall maintain detailed records of how these total monthly costs were derived in order to determine the appropriateness of these costs in a future proceeding.

3) PacifiCorp shall revise its proposed tariff sheet number 2851-E to reflect that the allocated costs to California and the recovery of these costs are to be determined in future rate setting proceeding.

4) The effective date of the tariffs authorized by this Resolution is today.

BACKGROUND

PacifiCorp provides electric service to approximately 47,000 customers in Northern California. PacifiCorp utilized the Powerdale hydroelectric generation facility to serve customers in California and other states.

PacifiCorp serves electricity to customers in Washington, Oregon, Wyoming, Montana, Utah, and California. PacifiCorp has about 47,000 customers in Northern California.

Constructed in the early 1920s, the Powerdale Generation Facility (Powerdale) is located in north central Oregon on the Hood River, south of its joining with the Columbia River. Powerdale consist of a small diversion dam (Powerdale Dam) and reservoir, a three-mile long water conveyance system, traveling fish screens, fish ladder, and a single unit 6 MW powerhouse. This facility generated electricity delivered to customers in PacifiCorp's service territory, including its customers in Northern California.

In 2003, PacifiCorp and other interested parties[1] filed with the Federal Energy Regulatory Commission (FERC) a settlement that addressed the interim operation and decommissioning of Powerdale.

In 2003, PacifiCorp and other parties filed a settlement agreement at FERC. The settlement agreement called for decommissioning of the Powerdale facility by February 29, 2012.[2] In November 2005, FERC adopted this settlement agreement and issued a Removal Order for Powerdale. The Removal Order in part required PacifiCorp to cease generation of power at Powerdale on April 1, 2010.

---

[1] The settlement was signed by PacifiCorp, United States Fish and Wildlife Service, National Marine Fisheries Service, Oregon Department of fish and Wildlife, Oregon Department of Environmental Quality, Oregon Water Resources Department, Confederated Tribes of the Warm Springs reservation of Oregon, American Rivers, and the Hood River Watershed Group. In addition, the Hood River Valley Parks and Recreation District signed as a non-party supporting the settlement.

[2] The settlement proposed to cease generation and to commence decommission procedures on April 1, 2010.

A November 2006 storm damaged Powerdale, resulting in PacifiCorp's determination that Powerdale should be decommissioned earlier than planned.

On November 7, 2006 a storm caused debris flow and flood water in the Hood River resulting in significant damage to the Powerdale facility. As a result, PacifiCorp conducted an economic analysis of project reconstruction versus cessation of generation. PacifiCorp concluded from its analysis, that it would be more cost effective to cease generation rather than restoring Powerdale for the remaining three-year period of operation.

On February 1, 2007, PaciCorp filed a letter with FERC requesting to cease generation at Powerdale earlier than provided for in the settlement approved by FERC.

On February 8, 2007, FERC granted PacifiCorp's request to cease generation early for Powerdale.

PacifiCorp requests CPUC approval to establish a memorandum account to record costs associated with decommissioning Powerdale.

On March 30, 2007, PacifiCorp filed AL 342-E requesting to establish a Cost Memorandum Account for decommissioning costs associated with Powerdale. PacifiCorp also requested that the effective date of AL 342-E be the date the advice letter was filed, March 30, 2007.

On March 30, 2007, Energy Division (ED) informed PacifiCorp that pursuant to Rule 4.6 appended to Decision (D) 05-01-032, ALs shall not become effective less than 30 days after filing unless otherwise authorized by the Commission or by statute. In addition, ED requested PacifiCorp to submit tariff sheets showing the proposed memorandum account and its operation. On April 13, 2007, PacifiCorp filed supplemental AL 342-E-A[3] that included a proposed tariff sheet with the memorandum account that had been excluded from AL 342-E. PacifiCorp submitted a revised proposed effective date of April 30, 2007.

[3] Energy Division granted PacifiCorp's request for additional time to file its supplemental advice letter.

NOTICE

Notice of AL 342-E and AL 342-E-A were made by publication in the Commission's Daily Calendar. PacifiCorp states that a copy of the Advice Letters were mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No party protested AL 342-E or AL 342-E-A.

DISCUSSION

PacifiCorp may establish a memorandum account to record costs associated with decommissioning the Powerdale facility; PacifiCorp's recovery in rates of any amounts recorded in the memorandum account is subject to future review by the Commission in a formal proceeding.

PacifiCorp states that its economic analysis demonstrates that early retirement is the most cost-effective option for PacifiCorp's retail customers. PacifiCorp anticipates that the decommissioning costs will be $6.3 million or approximately $116,000 on a California allocated basis[4].

PacifiCorp states it does not seek ratemaking changes at this time to address the costs for decommissioning Powerdale. PacifiCorp states that the ratemaking impacts of its request, if approved, will be addressed in a future formal proceeding.

PacifiCorp is authorized to establish a memorandum account for the purpose of recording costs it incurs for decommissioning the Powerdale facility. All costs

[4] The California allocated share estimate is based on PacifiCorp's "Revised Protocol" allocation method and on load and other conditions as of PacifiCorp's March 2006 semi-annual filing with the States that regulate PacifiCorp's service of electricity. California's allocated share may change over time as allocation factors change. In D.06-12-011, the Commission adopted PacifiCorp's "Revised Protocol" methodology in its 2007 General Rate Case application (A.) 05-11-022.

recorded in this account are subject to review for reasonableness in a future formal proceeding initiated by an application filed by PacifiCorp. In that application PacifiCorp shall provide justification for why the costs recorded in the account are reasonable and should be recovered in rates from its California customers.

This resolution des not prejudge what amounts recorded in the memorandum account PacifiCorp may recover in California customers' rates, nor does it address the allocation to customer classes of any amounts that the Commission may in the future decide are recoverable in rates. Finally, this resolution does not address the cost-effectiveness of early decommissioning of Powerdale. Those issues shall be subject to Commission review in the future formal proceeding initiated by a PacifiCorp application.

PacifiCorp shall revise the proposed tariffs it filed in AL 342-E-A.

PacifiCorp's proposed tariff filed in AL 342-E-A, Preliminary Statement Part C 8. Powerdale Decommissioning Cost Memorandum Account (PDCMA), states in the second sentence; "The PDCMA applies to all rate schedules and special contracts subject to the jurisdiction of the Commission."

While FERC has granted approval for PacifiCorp to decommission Powerdale prior to April 1, 2010, the recovery costs and allocation associated with the early decommission shall be determined in a future formal proceeding.

Therefore, PacifiCorp shall file a second supplement to its advice letter to revise the proposed tariff sheet for the PDCMA to delete the second sentence and replace it with the following:

"Recovery in rates and allocation of recorded costs recorded in the PDCMA may occur only after PacifiCorp has made a formal request and showing of reasonableness, and approval by the Commission. PacifiCorp's request shall be made by formal application, specifically by the inclusion in a future general rate case or other rate setting application."

PacifiCorp's proposed tariff sheet also states, "Entries made to the PDCMA at the end of the month shall be the total costs of the decommissioning project as allocated to the California jurisdiction."

While PacifiCorp records the decommissioning costs on a monthly basis in the Cost Memorandum Account, it shall maintain detailed records of how these total monthly costs were derived. These details will be necessary in order to determine the appropriateness of these costs in the proceeding in which the Commission addresses the reasonableness, potential recovery in rates, and allocation of costs recorded in the PDCMA.

The effective date of the PDCMA is the date of this Resolution.

Originally, PacifiCorp requested that AL 342-E be effective on the date filed. Our rules require that an advice letter shall not become effective in less than 30 days after filing unless otherwise authorized by the Commission or by statute. In AL 342-E-A, PacifiCorp proposed that the effective date of the PDCMA be April 30, 2007.

PacifiCorp's Preliminary Statement Part C, Memorandum Accounts, 2, Definitions (a) Authorization Date states: "The Authorization Date shall be the date on which the Commission authorizes the Company to begin recording costs for a Specified Project in a memorandum account."

The establishment of a memorandum account such as the PDCMA proposed by PacifiCorp generally requires a resolution to be brought before the Commission. Recent examples are Resolutions E-4093 (June 7, 2007), E-4087 (May 24, 2007), and E-4088 (May 24, 2007) addressing memorandum accounts to record Market Redesign and Technology Upgrade costs for Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E), respectively; Resolution E-4072 (May 3, 2007) for PG&E to establish a Land Conservation Plan Implementation Account, and Resolution E-3958 (October 27, 2005), for SDG&E to establish a memorandum account for call center costs associated with its CARE program.

Advice letters that become effective 30 days after filing are generally those which are rendered by staff disposition, and not by Commission order (e.g., a resolution). The time required to prepare a Commission resolution on an advice letter, and issue it in draft form for parties' comments 30 day prior to a Commission vote pursuant to Public Utilities Code Section 311(g), does not permit approval by the Commission 30 days after the advice letter is filed.

Further, the Commission has previously addressed the effective date of a memorandum account. In D.03-05-076 (p.7), we stated, "Memorandum accounts were designed to allow utilities the opportunity to record costs incurred prior to the Commission's review of the costs for reasonableness. In order to carry out its ratemaking duties fairly and orderly, the Commission has decided to parallel the prohibition against retroactive ratemaking by requiring that the establishment of a memorandum account not be retroactive. That is, the memorandum account can start to record debits or credits only prospectively from the date the account is authorized. In that way, if recorded costs are subsequently approved for recovery in rates, there will be no confusion or entanglement of issues regarding retroactive ratemaking."

The original and supplemental advice letters were each suspended within 30 days of filing. Accordingly, neither became effective of operation of law. Consequently, the effective date for implementation of the PDCMA shall be the effective date of this Resolution.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that a draft of this Resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduce or waived upon stipulation of all parties. The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, a draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from the date it was mailed for comments.

FINDINGS

1. In 2003, PacifiCorp and other interested parties filed with the FERC a settlement that addressed the interim operation and decommissioning of the Powerdale hydroelectric facility.

2. In November 2005, FERC adopted the settlement agreement and issued a Removal Order for the Powerdale. The Removal Order in part required PacifiCorp to cease generation of power at Powerdale on April 1, 2010.

3. On November 7, 2006, a storm caused debris flow and floodwater in the Hood River that damaged Powerdale.

4. PacifiCorp conducted an economic analysis of project reconstruction versus cessation of generation. PacifiCorp's analysis concluded there would be cost savings to cease generation rather than restoring the plant for the remaining three-year period of operation.

5. On February 1, 2007, PaciCorp filed a letter with FERC requesting to cease generation earlier than April 2010 at Powerdale.

6. On February 8, 2007, FERC granted PacifiCorp's request to cease generation early than April 2010 at Powerdale.

7. PacifiCorp filed Advice Letter 342-E on March 30, 2007 requesting Commission approval to establish a Cost Memorandum Account for decommissioning costs associated with the Powerdale Generation facility. In addition, PacifiCorp requested that the effective date be March 30, 2007.

8. Commission rules require that advice letters shall not become effective in less than 30 days after filing unless otherwise authorized by the Commission or by statute.

9. ED requested PacifiCorp to submit tariff sheets associated with the Cost Memorandum Account.

10. PacifiCorp filed Advice Letter 342-E-A on April 13, 2007 that revised its original AL 342-E by including a tariff sheet for the Powerdale Decommissioning Cost Memorandum Account and requesting an effective date of April 30, 2007.

11. The establishment of a memorandum account such as the PDCMA proposed by PacifiCorp generally requires a resolution to be brought before the Commission. The time required to prepare a Commission resolution on an advice letter typically does not permit approval of the advice letter by Commission resolution 30 days after the advice letter is filed.

12. No protests were filed on PacifiCorp AL 342-E and AL 342-E-A.

13. Tariff sheet number 2851-E, proposed by PacifiCorp in AL 342-E-A, indicates that the Powerdale decommissioning costs would apply to all rate schedules and special contracts subject to the jurisdiction of the Commission.

14. PacifiCorp should revise its proposed Preliminary Statement Part C. 8 Powerdale Decommissioning Cost Memorandum Account (PDCMA) as specified in the Ordering Paragraphs of this Resolution:

    14.1. Deletion of the second sentence, "The PDCMA applies to all rate schedules and special contracts subject to the jurisdiction of the Commission."

    14.2. Replace the second sentence with, "Recovery in rates and allocation of costs recorded in the PDCMA may occur only after PacifiCorp has made a formal request and showing of reasonableness, and approval by the Commission. PacifiCorp's request shall be made by formal application, specifically by the inclusion in a future general rate case or other rate setting application."

15. While PacifiCorp records the decommissioning costs on a monthly basis in the Cost Memorandum account, it should maintain detailed records of how these total monthly costs were derived in order that the Commission may determine the appropriateness of these costs in a future formal proceeding.

THEREFORE IT IS ORDERED THAT:

1. PacifiCorp's requests in Advice Letter 342-E and Advice Letter 342-E-A are approved with the following modifications:

    1.1. Costs recorded in the PDCMA may be recovered in rates only after PacifiCorp files a formal application, providing a showing of reasonableness of those costs, and the Commission has approved recovery of such costs. The request shall be made by formal application, specifically by the inclusion in a future general rate case or other rate setting application.

1.2. While PacifiCorp records the decommissioning costs on a monthly basis in the PDCMA, it shall maintain detailed records of how these total monthly costs were derived in order to determine the appropriateness of these costs in future formal proceeding where the Commission reviews costs recorded in the account.

1.3. PacifiCorp shall revised its proposed tariff sheet number 2851-E establishing the PDCMA as filed in AL342-E-A to reflect that the allocated cost to California and the recovery of these costs are to be determined in future formal proceeding.

1.4. The effective date of the tariffs approved by this Resolution is today.

2. Within 10 days of the effective date of this Resolution, PacifiCorp shall file a supplement to AL 342-E-A to revise tariff sheet number 2851-E establishing the Powerdale Decommissioning Cost Memorandum Account as follows:

   The second sentence of the Preliminary Statement Part C.8 Powerdale Decommissioning Cost Memorandum Account (PDCMA) shall be revised so that it reads: "Recovery in rates and allocation of costs recorded in the PDCMA may occur only after PacifiCorp has made a formal request, and showing of reasonableness, and approval by the Commission. PacifiCorp's request shall be made by formal application, specifically by the inclusion in a future general rate case or other rate setting application."

3. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on July 26, 2007; the following Commissioners voting favorably thereon:

_____
Paul Clanon
Executive Director

June 26, 2007 Commission Meeting Date: July 26, 2007
I.D.# 6777

TO: PARTIES TO PACIFICORP ADVICE LETTERS 342-E and 342-E-A

Enclosed is draft Resolution E-4096 of the Energy Division. It addresses PacifiCorp's proposal, as filed in PacifiCorp AL 342-E and supplemental AL 342-E-A, to establish a cost memorandum account for decommissioning costs associated with the Powerdale Generation Facility. The draft Resolution will be on the agenda at the July 26, 2007 Commission meeting. The Commission may then vote on this draft Resolution, or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Honesto Gatchalian
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-2200; JNJ@CPUC.CA.GOV

A copy of the comments should be submitted on the same day by electronic mail in Microsoft Word to Laura Lei Strain in the Energy Division at: LLS@CPUC.CA.GOV.

Any comments on the draft Resolution must be received by the Energy Division by July 16, 2007. Those submitting comments must serve a copy of their comments on 1) the

entire service list attached to this letter, 2) all Commissioners, 3) the Chief Administrative Law Judge, and the General Counsel on the same date that the comments are submitted to the Energy Division. Comments may be submitted electronically.

Comments shall be limited to fifteen pages in length, and list the recommended changes to the draft Resolution. Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft Resolution may be submitted (i.e. received by the Energy Division) on July 23, 2007, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed fifteen pages in length and shall be served as set forth above for comments.

Late submitted comments or replies will not be considered.

Gurbux Kahlon
Program Manager
Energy Division

Enclosures:

Certificate of Service
Service List

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution E-4096 on all parties in these filings or their attorneys as shown on the attached list.

Dated June 26, 2007 at San Francisco, California.

_____

Honesto Gatchalian

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

Draft Res. E-4096
PacifiCorp AL 342E and AL 342E-A

Cathie Allen
PacifiCorp
California Regulatory Affairs Manager
825 NE Multnomah, Suite 2000
Portland, OR 97232
Cathie.Allen@PacifiCorp.com