ORDER NO. 07-211

ENTERED 05/29/07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1263

In the Matter of PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY Application for an Accounting Order Regarding Certain Expenditures Associated with the MidAmerican Energy Holdings Company Transition.	)	ORDER

DISPOSITION: ACCOUNTING ORDER APPLICATION APPROVED WITH CONDITIONS

On May 19, 2006, PacifiCorp, dba Pacific Power & Light Company (PacifiCorp or company), filed an application with the Public Utility Commission of Oregon (Commission) requesting an accounting order authorizing the company to capitalize and amortize transition costs related to MidAmerican Energy Holding Company's (MEHC) acquisition of PacifiCorp. The application was filed pursuant to ORS 757.120, 757.125 and OAR 860-027-0045, which authorize the Commission to prescribe the accounting to be used by public utilities subject to its jurisdiction. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A and incorporated by reference.

At its Public Meeting on May 22, 2007, the Commission adopted Staff's Recommendation, with conditions, and approved PacifiCorp's current request.

ORDER

IT IS ORDERED that PacifiCorp's application for an accounting order authorizing it to capitalize and amortize transition costs associated with the acquisition of PacifiCorp by MidAmerican Energy Holdings Company, subject to the conditions stated in Appendix A, is approved.

Made, entered, and effective MAY 29 2007.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 22, 2007

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** _____N/A_____

DATE: May 9, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch, and Judy Johnson

SUBJECT: PACIFIC POWER AND LIGHT: (Docket No. UM 1263) Application for an Accounting Order Regarding Costs Related to the MidAmerican Energy Holdings Company Transition.

STAFF RECOMMENDATION:

I recommend that the Commission approve Pacific Power and Light's (PacifiCorp or company) request for an accounting order authorizing the company to capitalize and amortize transition costs related to MidAmerican Energy Holdings Company's (MEHC) acquisition of PacifiCorp.

DISCUSSION:

On May 19, 2006, PacifiCorp filed an application for an accounting order authorizing the company to capitalize and amortize, over a three-year period, the costs related to the MEHC transition as new owners of PacifiCorp, effective the date of the application. The company states that the application is filed pursuant to Oregon Revised Statute (ORS) 757.120, 757.125 and Oregon Administrative Rule (OAR) 860-027-0045, which authorizes the Commission to prescribe the accounting to be used by public utilities subject to its jurisdiction.

The company anticipates both additional costs and savings related to the MEHC transition. The additional costs are related to: (a) employee severance costs from anticipated work force reductions; and (b) computer software conversions necessary to make the change from a fiscal year to a calendar year for financial and regulatory reporting purposes. The expected savings would be related to salary savings from employees whose positions were eliminated or who voluntarily terminated as a result of the acquisition. In this application, PacifiCorp is requesting to capitalize all transition costs accrued from May 19, 2006, through March 31, 2007, and amortize the balance on a straight line basis over a three-year period beginning April 1, 2007, or at the implementation of the next general rate case.

Description
PacifiCorp proposes to account for transition costs that are the result of MEHC's acquisition of PacifiCorp. The company requests that the costs accrue carrying charges at the company's allowed return on rate base. The application then states that on April 1, 2007, the company would capitalize the balance and begin amortizing the costs, on a straight line basis over three years, or at the next filing of a general rate case. The company asserts that the proposed accounting is needed to properly match costs and benefits, because transition costs are incurred in the first several months but transition benefits are realized over time.

Proposed Accounting
The company proposes to account for the transition costs by charging them to account 182.3 (Other Regulatory Assets). In the absence of the authorizations requested in their application, the transition costs would be charged to the company's operations and maintenance expense accounts.

Ratemaking Treatment
In May 2006, PacifiCorp requested a determination of ratemaking treatment for the transition costs through the then currently filed general rate case. However, an all party comprehensive settlement in the UE 179 General Rate Case (GRC) was agreed to since the time this application was filed and it did not include these transition costs and benefits. Consequently, determination of ratemaking treatment for transition expenses will have to be made in the next general rate case, at which time the company has said it will demonstrate that the benefits of the transition initiatives exceed the costs.

Estimated Costs
PacifiCorp anticipates that the costs for computer software conversions will be between $500,000 and $1 million through March 2007. Severance costs are unknown, as are any savings that may result from reduced labor costs associated with the transition.

Staff's Analysis
Staff and intervenors initially had significant problems with this accounting order request. After discussions with intervenors and the company that culminated in a settlement meeting on February 5, 2007, the company has agreed to a number of

conditions to their accounting order request. With these conditions, the other parties do not oppose this accounting order, but reserve the right to oppose inclusion of these costs in rates, should the Company request to do so.
The conditions are as follows:

a. The transition costs will be severance costs booked between March 21, 2006, and March 31, 2007, for employees severed as a result of the MEHC transition. No computer upgrades or other non-severance related costs will be included.
b. The capitalized expenditures will not accrue interest or carrying charges or earn a return until the unamortized balance is recognized in rates.
c. Amortization will start beginning April 1, 2007, and the costs will be amortized on a straight line basis over a period of five years.
d. PacifiCorp will provide a Cost/Benefit study at the time the company seeks ratemaking treatment in the next rate case. The study should demonstrate, to the Commission's satisfaction, that the sum of (**i.**) total company test year labor expenses including management fees and adjusted to eliminate workforce changes occurring since March 20, 2006, due to the acquisition or expansion of resources, a change in service territory, or incremental service technicians, customer service representatives or meter readers related to load growth since that date, and (**ii.**) the total unamortized balance of the actual transition costs; is less than (**iii.**) the annualized labor cost and management fees of the company as of March 20, 2006, (including the salaries and benefits of employees severed from March 21, 2006, until March 31, 2007, and whose severance benefits are included in the transition costs) adjusted for inflation utilizing the ratio of Global Insight's Utility Cost Information Service's Total Operating and Maintenance Index for the appropriate account divided by the 2006 index value.
e. The company will prepare a preliminary cost/benefit study no later than August 1, 2007, as described above for the transition costs ending March 31, 2007. The company will distribute this preliminary analysis to Commission Staff and interested parties. This analysis will be updated as necessary as part of the company's next general rate case filing.
f. This accounting order for transition cost recovery will be a separately identified issue in the next rate case.
g. The transition costs are recoverable only to the extent that Oregon's portion of the $6 million total company Administrative and General (A&G) Cost savings acquisition benefit agreed to in Order No. 06-082, docketed UM 1209, has first been fully realized in savings to customers.

PROPOSED COMMISSION MOTION:

PacifiCorp's request under ORS 757.120, 757.125 and OAR 860-027-0045, for an accounting order to capitalize transition costs related to the acquisition of PacifiCorp by MEHC, subject to the conditions, be approved.

PacifiCorp UM 1263