

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1298

In the Matter of)	
)	
PACIFICORP, dba PACIFIC POWER)	ORDER
)	
Application for an accounting order regarding)	
closure of the Powerdale Hydro Generation)	
Plant.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITION

On January 24, 2007, PacifiCorp, dba Pacific Power (PacifiCorp or Company), filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.120, ORS 757.125, ORS 757.140(2), ORS 757.355(1), and OAR 860-027-0045. The application requests an accounting order regarding the closure of the Powerdale Hydro Generating Plant (Powerdale or plant).

Powerdale was severely damaged by flooding on November 7, 2006, and since the plant is scheduled to be shut down and decommissioned in April 2010, the Company evaluated the relative costs and benefits of repairing the present flood damage and continuing to operate the plant for the three remaining years or decommissioning the plant now, without repairs. The Company's analysis demonstrated early retirement to be the most cost effective option. At its public meeting on August 21, 2007, the Commission adopted Staff's recommendation to approve PacifiCorp's application. Staff's recommendation is attached as Appendix A, and is incorporated by reference.

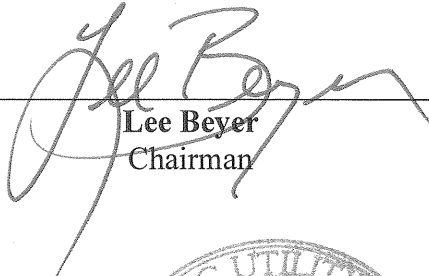
ORDER

IT IS ORDERED that:

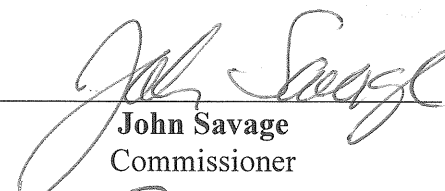
1. PacifiCorp's request for an accounting order regarding the early shutdown and pending decommissioning of the Powerdale Hydro Generating Plant is approved.

2. PacifiCorp will separately track and identify, in a future ratemaking proceeding, all costs related to these activities, including return on undepreciated investment and incremental replacement power costs.

Made, entered, and effective AUG 23 2007 .



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



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. CA8

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 21, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: August 7, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger *E*

THROUGH: *li* Lee Sparling, *EB* Ed Busch, and *JJ* Judy Johnson

SUBJECT: PACIFIC POWER AND LIGHT: (Docket UM 1298) Application for an accounting order regarding closure of the Powerdale Hydro Generation Plant.

STAFF RECOMMENDATION:

I recommend that the Commission approve Pacific Power and Light's (PacifiCorp or company) request for an accounting order regarding the closure of the Powerdale Hydro Generating Plant (Powerdale or plant), subject to tracking certain related costs.

DISCUSSION:

PacifiCorp originally filed, on January 24, 2007, an application for an accounting order regarding closure of the Powerdale Hydro Generating Plant. The company amended the application April 2, 2007, to re-state the benefits of the closure. PacifiCorp makes this request for an accounting order under ORS 757.120, 757.125, 757.140(2), 757.355(1) and OAR 860-027-0045,

Powerdale was severely damaged by flooding on November 7, 2006. Since the plant is scheduled to be shut down and decommissioned in April 2010, the company evaluated the relative costs and benefits of repairing the present flood damage and continuing to operate the plant for the three remaining years or decommissioning the plant now, without repairs. The company's analysis demonstrated early retirement to be the most cost effective option. This application is seeking authorization for accounting treatment of the early retirement costs. PacifiCorp does not propose ratemaking treatment of the amounts until a future ratemaking proceeding.

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Background

Powerdale is located on the Hood River, not far from its confluence with the Columbia River in Hood River County, Oregon. The plant was constructed in 1922 and 1923 and consists of a long, 3 mile flow line, a relatively small diversion dam and reservoir, and a single 6,000 kW generator powerhouse. When the plant came up for relicensing in 1998, an environmental assessment required new operating terms and conditions that the company determined would make the continued operation of the plant uneconomical. Consequently, PacifiCorp and FERC entered into a settlement agreement in 2005 whereby Powerdale would continue to operate until April 1, 2010, and then be shut down permanently and decommissioned. One part of the interim operating and decommissioning agreement with FERC deals with catastrophic events such as a flood that rendered continued operation of the plant uneconomical. The company has requested and received authorization for early retirement of the facility from FERC, and is now seeking approval from the other parties.

Analysis

PacifiCorp has provided a summary of the economic analysis it performed in reaching the decision to retire the plant early. The analysis of the option to repair and continue to operate Powerdale includes approximately \$3.7 million to repair flood damage and a small, one time increase to O&M for dredging. This option would allow the company to benefit from approximately three more years of low cost hydropower until the plant is decommissioned in 2010. The other option, to retire the plant now without repairing the flood damage, would result in higher than planned replacement power costs offset by a modest reduction in O&M costs but avoid the costly flood repairs. In either case, there are some required stabilization costs and an assumed maximum payout of property insurance of \$745,000. Staff has reviewed the company's analysis and concurs that it is more costly to repair the plant and run it for the remaining few years of its life than to retire it now without repairing the flood damage.

Proposed Accounting

PacifiCorp is proposing to retire Powerdale based on the outcome of its cost-effectiveness analysis. The company is requesting an accounting order to:

1. Record decommissioning costs of approximately \$6.3 million to FERC account 182.2, "Unrecovered Plant and Regulatory Study Costs", with provisions for a final true up for actual expenditures. This amount represents the company's best estimate of costs for complying with FERC's removal order taking into consideration the effects of the flood.
2. Record the net book value of the tangible and intangible plant assets from FERC rate base account 101, "Electric Plant in Service" to FERC account 182.2, "Unrecovered Plant and Regulatory Study Costs". The actual amount transferred would be the remaining undepreciated net book value as of the date of the

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transfer. The end of year 2006 net book value was \$8.9 million after removing the asset retirement costs.

In the absence of an accounting order the company would be required to write off undepreciated plant investments as a current period expense, and recognize decommissioning costs as a current period expense.

Ratemaking

The company is not seeking ratemaking treatment for the Powerdale costs. Ratemaking treatment of the costs will be reserved for a future ratemaking proceeding.

Estimated Cost

The Oregon-allocated share of the undepreciated investment in Powerdale is \$2.5 million. The Oregon-allocated share of the decommissioning cost is \$1.8 million.

Staff Evaluation

Staff has reviewed the company's application and work papers. The estimates for flood damage repair and decommissioning costs were accepted as stated. Staff concurs that the decision to retire the plant early is the least cost option. The accounting order with true up provisions requested by PacifiCorp is the appropriate method to account for undepreciated plant assets and decommissioning costs and any insurance recovery. Ratemaking treatment of the costs is not being requested at this time. The company states that it continues to incur project stabilization costs and replacement power costs associated with the plant shutdown. It also continues to collect a rate base return on the undepreciated investment in Powerdale.

Staff recommends that the Commission direct the company to track any rate base return from undepreciated plant investment along with any incremental power cost difference between what is in rates for Powerdale and the Powerdale replacement power costs that are above costs in rates, so that these returns and costs can be netted against the undepreciated plant asset value, decommissioning costs and insurance recovery at the time of a future ratemaking proceeding.

PROPOSED COMMISSION MOTION:

PacifiCorp's request for an accounting order regarding the early shutdown and pending decommissioning of the Powerdale Hydro Generating Plant be approved. In addition, PacifiCorp must separately track, and identify in a future ratemaking proceeding, all costs related to these activities, including return on undepreciated investment and incremental replacement power costs.