ORDER NO. 15 184

ENTERED JUN 0 9 2015

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UP 315

In the Matter of PACIFICORP, dba PACIFIC POWER, and IDAHO POWER COMPANY, Request for Approval to Exchange Certain Transmission Assets Associated with the Jim Bridger Generation Plant.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on June 9, 2015, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 9, 2015

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: May21, 2015

TO: Public Utility Commission

FROM: Brian Bahr and Jorge Ordoñez

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: PACIFICORP and IDAHO POWER COMPANY: (Docket No. UP 315) Requests approval to exchange certain transmission assets associated with the Jim Bridger generation plant.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the application by PacifiCorp dba Pacific Power (PacifiCorp) and Idaho Power Company (Idaho Power) (together, the Companies) to exchange assets and reallocate transmission rights associated with the Jim Bridger generation plant (Jim Bridger Plant), subject to the following conditions:

1. Companies shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.

2. The final journal entry recording the transaction shall be submitted to the Commission within 60 days after the transaction closes.

ISSUE

With this application, the Companies request Commission approval to exchange assets and reallocate transmission rights associated with the Jim Bridger Plant.

APPLICABLE LAWS AND STANDARD OF REVIEW

The application was filed jointly by the Companies on December 19, 2014, in accordance with ORS 757.480 and 757.485, and OAR 860-027-0025. These are the laws governing the sale or lease of utility property. ORS 757.480 provides, in relevant part, that a utility shall obtain the Commission's approval prior to selling property used to provide utility service. ORS 757.485 provides, in relevant part, a public utility will not, without the Commission's approval, directly or indirectly, acquire or become the owner of any property with a value in excess of $10,000 that is used by another utility for utility purposes. OAR 860-027-0025(1)(l) requires the applicant to show that the property sale will be consistent with the public interest. The Commission has interpreted the phrase "consistent with the public interest" to require a showing of "no harm to the public." *See, e.g. In the Matter of the Application of PacifiCorp*, Order No. 00-112 at 6 (2000); *In the Matter of the Application of Portland General Electric*, Order No. 99-730 at 7 (1999).

DISCUSSION:

The Companies have entered into a number of agreements (Legacy Agreements) over the last 40 years regarding ownership and operation of the Jim Bridger power plant as well as associated transmission assets. There are three 345 kilovolt transmission lines associated with the Jim Bridger Plant: "Jim Bridger-Three Mike Knoll-Goshen," "Jim Bridger-Populus-Borah," and "Jim Bridger-Populus-Kinport." Under the Legacy Agreements, PacifiCorp owned two of the three transmission lines, and Idaho Power owned the remaining one.

On October 24, 2014, the Companies entered into a Joint Purchase and Sale Agreement (JPSA) and Joint Ownership and Operating Agreement (JOOA) to replace or amend the Legacy Agreements. The purpose of the JPSA and JOOA is to address inefficiencies caused by changes in "the regulatory landscape, the parties' respective load growth, and investments in system upgrades." The JPSA and JOOA re-allocate ownership interests and operational responsibilities and govern the exchange of certain assets. In particular, the parties will re-allocate ownership in the three transmission lines so that each utility owns a portion of each line. The Companies also made filings in California, Utah, Wyoming, Idaho, and Washington.

Under the JPSA, Idaho Power would receive ownership in the following substations and transmission lines:

Substations	**Transmission Lines**
Goshen	Kinport – Goshen
Burns	Antelope – Goshen
Summer Lake	Antelope – Scoville
Jefferson	American Falls – Malad
Big Grassy	Midpoint – Hemingway – Summer Lake
Walla Walla	Walla Walla – Hurricane
Hurricane	Jim Bridger – Populus – Borah
Antelope	Jim Bridger – Populus – Kinport

Also under the JPSA, PacifiCorp would receive ownership in the following substations and transmission lines:

Substations	**Transmission Lines**
Kinport	Jim Bridger – Three Mile Knoll – Goshen
Borah	Goshen – Jefferson – Big Grassy
Adelaide	Midpoint – Kinport
Midpoint	Midpoint – Adelaide – Borah #1
	Midpoint – Adelaide – Borah #2
	Adelaide – Midpoint

Analysis
Staff investigated the following issues:

1. Scope and Terms of the Asset Purchase Agreement
2. Allocation of Gain
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

Staff's review of these issues included examination of the Company's application, applicable laws, and the Company's responses to 15 data requests from Staff.

Scope and Terms of the Asset Purchase Agreement
The JPSA, dated October 24, 2014, appears to be a comprehensive contract with fairly standard terms governing the exchange of assets between the Companies. The JPSA articulates the assets included and excluded in the exchange, the purchase price and net book value, tax considerations, and other standard conditions and provisions.

Exhibit A of the JPSA importantly denotes the prior ownership percentage of each asset under the Legacy Agreements and the updated ownership percentage of each asset following the current transaction.

Exhibit C of the JPSA is the JOOA, which governs the allocation of capacity and operational responsibility. In addition to standard operating agreement clauses relating to indemnification, taxes, and governance of disputes, the JOOA also governs matters such as maintenance of the assets, capital upgrades and improvements, coordination of the requests for generation or transmission service and processing through the Open Access Transmission Tariff (OATT), government regulation, retirement of the facilities, and other such considerations.

Allocation of Gain
The net book value of each of the Companies' respective assets is approximately $43 million, subject to a true-up adjustment to account for certain upgrades and removal of certain equipment. The table below shows the net book value of the assets to be exchanged by each company.

	PacifiCorp	Idaho Power
Electric Plant in Service	$74,148,876	$63,787,598
Accumulated Depreciation	($30,530,978)	($20,522,563)
Net Book Value	$43,617,898	$43,265,036

The difference in book values is $352,862, subject to minor closing adjustments. At the time of transaction closing, the actual value difference will be accounted for as a gain on sale and booked to the property sales balancing account. Ongoing operational expenses following the transaction are expected to be similar for each Company, with a potential decrease due to the gain of certain operational and administrative efficiencies.

Relying on the net book value for the transaction is appropriate because of the nature of the transaction, namely, a comprehensive exchange of assets between two entities uniquely capable of entering into the transaction. Recent Commission precedents of occurrences when the net book value was used for a property sale include Commission Orders No. 10-010 (Docket No. UP 255), and No. 10-449 (Docket No. UP 265). In Docket No. UP 255, Idaho Power sold the Goshen Capacitor Bank to PacifiCorp at no gain or loss. In Docket No. UP 265, PacifiCorp sold 450 MW of transmission capacity to Black Hills Power. Both sales were approved by the Commission in part because no practical market existed for the assets being sold.

The tables below indicate the net book value amounts of the assets included in the transaction.

Assets Transferred to PacifiCorp	Net Book Value
Jim Bridger transmission system realignment	$15,517,364
Borah West transmission system	$26,667,044
Goshen-Jefferson-Big Grassy transmission	$83,186
Hemingway substation realignment	$997,442
Total	**$43,265,036**

Assets Transferred to Idaho Power	Net Book Value
Jim Bridger transmission system realignment	$12,858,202
Antelope–Goshen line, Goshen substation	$1,508,864
Antelope–Scoville line, Antelope substation	$323,060
American Falls-Malad line	$72,762
Midpoint-Hemingway line, Hemingway substation	$10,765,168
Hemingway-Summer Lake line, Burns and Summer Lake	$12,284,140
Walla Walla – Hurricane line, Hurricane and Walla Walla	$4,618,711
Jefferson & Big Grassy substations	$1,186,990
Total $43,617,898	**Total $43,617,898**

Public Interest Compliance
As stated, the Commission customarily applies a no harm standard with regard to the public interest compliance of property sales. This exchange of assets between the Companies should not increase costs to customers, but conversely, create transmission and administrative efficiencies that should be reflected in the revenue requirement of each Company at its next general rate case. Additionally, the transaction does not negatively affect transmission customers of the Companies.

Retail Customers
As discussed above, entering into this transaction will allow the Companies to replace outdated Legacy Agreements and resolve operational inefficiencies. This will allow the Companies to continue to provide safe transmission service while improving reliability. Reliability is improved by the ability of each Company to route transmission service through an alternate route should the primary route be compromised because it will own a part of each of the three transmission lines following the transaction. The benefits of the transaction appear to equally benefit both Companies.

In addition to benefitting from the operational and administrative efficiencies gained by the transaction, Oregon customers will also benefit economically from the increased transmission revenue due to the effect of terminating the Legacy Agreements on the OATT rate. If the transaction is approved, the Companies will manage their jointly-owned facility capacity through their respective OATTs. Replacing the Legacy Agreements with the JPSA and the JOOA will modify the inputs to Idaho Power's OATT formula rate by removing Legacy Agreement contract demands from the OATT formula rate divisor, thereby increasing OATT revenues. Exhibit Idaho Power/101, Grow/1, of the application indicates over the next 10 years an Oregon-allocated net present value revenue requirement impact of the increased OATT revenues of approximately $2.5 million.

Transmission Customers
As well as offering service to retail customers, the Companies also sell excess transmission capacity to third-party customers, such as other utilities and merchant generators. Staff reviewed the proposed transaction to ensure that these customers, in addition to the retail customers, are not harmed. A potential concern was that the transaction may give preferential treatment to the Companies' merchant functions when allocating transmission rights on the transmission assets involved in the exchange.

In 1996, the Federal Energy Regulatory Commission (FERC) issued its Order No. 888, titled "Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities..." Order 888 requires that all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce "have on file open access non-discriminatory transmission tariffs (OATTs) that contain minimum terms and conditions of non-discriminatory service."[1] However, the Legacy Agreements being replaced originated prior to the issuance of Order 888.

Additionally, according to the Companies' response to Staff Data Request No. 15, after the transaction is approved any new transmission capability will be granted based on the Companies' respective OATTs, taking into consideration any pending transmission service request and any request for network transmission services. The response states:

> *In accordance with PacifiCorp and Idaho Power's respective OATTs, each transmission provider must evaluate any transmission service requests, including requests from the transmission provider's merchant function, in accordance with the OATT. These OATT sections require the transmission provider to evaluate the*

[1] See www.ferc.gov/legal/maj-ord-reg/land-docs/order888.asp.

> *request to determine whether [available transmission capacity (ATC)] can be granted, and if so, in what amount. ... To the extent there is ATC on any of the transmission facilities associated with the Transaction, such ATC will be posted for sale on each company's respective open access same-time information system ("OASIS") following the closing, which allows any eligible customer to purchase the available capacity.*

Records Availability, Audit Provisions, and Reporting Requirements
Staff notes that the Commission retains the ability to review all property sales of the Companies through general rate case filings. Staff's recommended conditions provide for documentation of this property sale. The Companies have reviewed this memo and have no objections or concerns. Staff is also not aware of objections from any other parties.

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

1. The JPSA and JOOA did not contain any unusual or restrictive terms or conditions;
2. The transfer pricing is fair and reasonable;
3. The transaction is in the public interest; and
4. Necessary records are available.

PROPOSED COMMISSION MOTION:

PacifiCorp's and Idaho Power's joint application for approval to exchange assets and allocate transmission rights associated with the Jim Bridger generation plant be approved subject to Staff's recommended conditions.