

**FY 2009 AVERAGE SYSTEM COST
DRAFT REPORT**

FOR

**Public Utility District No. 1
of Franklin County**

Docket Number: ASC-09-FR-01

Effective Date: October 1, 2008

PREPARED BY
BONNEVILLE POWER ADMINISTRATION
U.S. DEPARTMENT OF ENERGY

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2. AVERAGE SYSTEM COST SUMMARY

2.1. Base Period ASC

The 2008 ASCM requires utilities participating in the ASC Review Process to submit to BPA “Base Period” financial and operational information. The Base Period is defined as the calendar year of the most recent FERC Form 1 data for IOUs; and Annual Reports, including Cost of Service Analyses (COSA), for COUs. The submitted information includes the Appendix 1, an Excel based workbook used in calculating the Base Period ASC. For purposes of this report, the Base Period is calendar year (CY) 2006.

The table below summarizes CY 2006 Base Period ASCs based on (1) the ASC information filed by Franklin on October 1, 2008 (including errata, if applicable), and (2) the same information from the ASC Draft Report as adjusted by BPA after the ASC Review Process. This table does not reflect the Exchange Period ASC, which is noted in subsequent tables.

Table 2.1: CY 2006 Base Period ASC
(Results of Appendix 1 calculations)

	October 1, 2008	April 13, 2009
	As Filed	Draft Report
Production Cost	\$43,784,794	\$43,784,794
Transmission Cost	353,594	353,594
(Less) NLSL Costs	0	0
Contract System Cost	\$44,138,388	\$44,138,388
Total Retail Load (MWh)	835,781	835,781
(Less) NLSL	0	0
Total Retail Load (Net of NLSL)	835,781	835,781
Distribution Losses	39,080	39,080
Contract System Load	874,861	874,861
CY 2006 Base Period ASC (\$/MWh)	50.45	50.45

2.2. Exchange Period ASC New Resource Additions

In addition to the historical Base Period cost and load data, the exchanging utility may also provide its forecast of major new resource additions, and all associated costs, that are projected to come on-line through the end of the Exchange Period (FY 2009). The forecast covers the period from the end of the Base Period (December, 2006) to the end of the Exchange Period (September, 2009). When a major new resource addition is projected to come on-line prior to

the start of the Exchange Period, the associated costs are projected forward to the midpoint of the Exchange Period in order to calculate the Exchange Period ASC.

The 2008 ASCM also provides that changes to an established ASC are allowed to occur during the Exchange Period to account for major new resource additions and purchases that are projected to come on-line or to be purchased and used to meet a utility's retail load during the Exchange Period (FY 2009).

In either scenario, such changes in ASC must meet the same materiality threshold as a change in ASC resulting from major new resource additions, that is, a 2.5 percent or greater change in Base Period ASC. BPA allows utilities to submit stacks of individual resources that, when combined, meet the materiality threshold. However, each resource in the stack must result in an increase of Base Period ASC of 0.5 percent or more.

The tables below summarize the new major resource additions projected to come on-line during the forecast period, based on (1) the ASC information filed on October 1, 2008 (including errata, if applicable), and (2) the same information from the ASC Draft Report as adjusted by BPA after the ASC Review Process.

**Table 2.2.1:
New Resource Additions Coming On-Line
Prior to Exchange Period New Resource Additions (\$/MWh)**

Draft Report FY 2009 Exchange Period ASC				
Resource	N.A.	N.A.	N.A.	N.A.
On-Line Date				
Delta*				

Draft Report FY 2009 Exchange Period ASC				
Resource	Pipeline Contract	N.A.	N.A.	N.A.
On-Line Date	1/1/2008			
Delta*	(1.66)			

**Table 2.2.2:
New Resource Additions Coming On-Line
During the Exchange Period (\$/MWh)**

As-Filed FY 2009 Exchange Period ASC				
Resource	N.A.	N.A.	N.A.	N.A.
Expected On-Line Date				
Delta*				

Draft Report FY 2009 Exchange Period ASC				
Resource	N.A.	N.A.	N.A.	N.A.
Expected On-Line Date				
Delta*				

*The Delta is the incremental change in the ASC as the new resources come on line.

(Oct. 5, 1984). In the late 1980s and mid-1990s, BPA and exchanging utilities executed a number of termination agreements that provided for payments to each utility through the remaining years of the Residential Purchase and Sale Agreements (RPSA) that implemented the REP. These termination agreements did not require the participating utilities to submit ASC filings. Subsequent REP Settlement Agreements with BPA's investor-owned utility customers were in effect from approximately 2001 through 2007, but were terminated following a judicial decision issued on May 3, 2007.

In 2007, BPA began administrative efforts to resume the full implementation of the REP, including the development of new RPSAs and a consultation proceeding to revise the 1984 ASC Methodology. As with the 1981 and 1984 ASC Methodologies, the 2008 ASCM was developed in a consultation proceeding with interested parties through, in part, a series of working group meetings conducted by BPA staff. The goal of the consultation process was to develop an administratively feasible ASCM that would be technically sound and comport with the Northwest Power Act. The ASCM is subject to review and approval by the Federal Energy Regulatory Commission (FERC or Commission). On September 30, 2008, the Commission granted interim approval to BPA's 2008 ASCM.

BPA maintains a significant role in reviewing utilities' ASC filings to ensure compliance with the 2008 ASCM. For more information regarding the 2008 ASCM, please refer to the *Final Record of Decision, 2008 Average System Cost Methodology*, June 30, 2008.

3.2. ASC Review Process - FY 2009

Under the 2008 ASCM, utilities' ASCs are generally established prior to the calculation and payment of REP benefits. The ASC Review Process for FY 2009, however, has occurred during the Exchange Period in which the as-filed ASC is in effect. This is because the 2008 ASCM was completed in June of 2008, which did not allow the ASC Review Process to occur and establish final utilities' ASCs until after FY 2009 had begun. Therefore, the REP for FY 2009 is implemented based on as-filed ASCs, and payments are then trued up for the final ASCs determined by BPA. In the future, the ASC Review Process will occur before the beginning of the Exchange Period.

On October 1, 2008, exchanging utilities submitted ASC filings for the FY 2009 Exchange Period. The as-filed ASCs went into effect on an interim basis at that time and will be trued-up based on the results of the respective ASC Final Reports, which are scheduled for publication in June, 2009. All data were submitted using two Excel-based models: the Appendix 1 and the ASC Forecast Model. Additional supporting documentation was also submitted. A utility's submission of the models and supporting documentation is defined as the utility's "ASC filing."

To determine a utility's Exchange Period ASC for FY 2009 (October 1, 2008, through September 30, 2009), the Base Period (2006) ASC is first calculated using the Appendix 1. BPA then uses the ASC Forecast Model to escalate the Base Period ASC forward to the effective Exchange Period. The Base Period and Forecast ASC results are reported herein.

The 2008 ASCM allows utilities to file multiple, contingent ASCs to reflect changes to service

territories, and allows for changes to ASCs resulting from major resource additions and reductions.

The exchanging utilities' October 2008 ASC filings began the formal review and comment processes, referred to as the Review Period, to establish the utilities' respective ASCs. For the Draft Reports, BPA completed a preliminary review of the utilities' ASC filings in conformance with the 2008 ASCM, which was approved by FERC on an interim basis on September 30, 2008. Parties had a full and complete opportunity to intervene in BPA's ASC Review Processes and to submit comments on the utilities' ASC filings. The Review Processes for FY 2009 ASCs are still in progress at this publication date. Upon completion of the formal reviews and final ASC determinations, BPA will publish, in June 2009, Final Reports for each participating utility.

For details of the prospective Review Period and guidelines, see *Attachment A to the 2008 Final Record of Decision, 2008 Average System Cost Methodology, June 2008*, entitled *2008 Methodology for Determining the Average System Cost of Resources for Electric Utilities Participating in the Residential Exchange Program Established by Section 5(c) of the Pacific Northwest Electric Power and Conservation Act*.

3.3. Explanation of Schedules

Utilities' Appendix 1 filings consist of a series of seven schedules and other supporting information, which present the data necessary to calculate ASCs. The schedules and support data are as follows:

1. Schedule 1 - Plant Investment/Rate Base
2. Schedule 1A - Cash Working Capital Calculation
3. Schedule 2 - Capital Structure and Rate of Return
4. Schedule 3 - Expenses
5. Schedule 3A - Taxes
6. Schedule 3B - Other Included Items
7. Schedule 4 - Average System Cost
8. Distribution of Salaries and Wages
9. Purchased Power and Off-System Sales
10. New Large Single Loads
11. Labor Ratios

3.3.1. Schedule 1 – Plant Investment/Rate Base

This schedule establishes the rate base used by the utility. The calculation begins with a determination of the Gross Electric Plant In-Service, which includes the historical costs of the Intangible, General, Production, Transmission, and Distribution Plant. For exchanging utilities that provide electric and natural gas service, the portion of common plant allocated to electric service is also included. These values (and all subsequent values) are entered into the Appendix 1 filing as line items based on the FERC Uniform System of Accounts. In general, each line item (Account) is functionalized to Production, Transmission, and/or Distribution/Other in accordance with the functionalizations prescribed in the 2008 ASCM, Attachment A, Table 1.

September 1, 1979, resources and long-term power purchases greater than five years in duration.

NLSLs and the associated costs to serve them are not included in utilities' ASCs.

3.3.11. Labor Ratios

These ratios assign costs on a pro rata basis using salary and wage data for Production, Transmission, and Distribution/Other functions included in the utility's most recently filed FERC Form 1. For COUs, comparable data is used based on the cost of service analysis (COSA) study used as the basis for retail rates in effect during the Base Period filing.

3.4. ASC Forecast

Once BPA determines the Base Period ASC, it applies this data in an Excel-based forecasting model (ASC Forecast Model) to escalate the Base Period (CY 2006) ASC data forward to the Exchange Period, which in this case is FY 2009. BPA used Global Insight's forecast of cost increases for capital costs and fuel (except natural gas), O&M, and G&A expenses; BPA's forecast of market prices for IOU purchases to meet load growth and to estimate short-term and non-firm power purchase costs and sales revenues; BPA's forecast of natural gas prices; and BPA's estimates of the rates it will charge for its PF and other products. For additional background on the determination of Exchange Period ASCs, see the 2008 ASCM, Section IV, *Rules for Determining Exchange Period Average System Cost*, Subsection A.

3.4.1. Forecast Contract System Cost

Forecast Contract System Cost (CSC) includes a utility's forecast costs for production and transmission resources, including power purchases and conservation measures, which costs are includable in and subject to the provisions of Appendix 1. As outlined in the 2008 ASCM, Section IV, *Rules for Determining Exchange Period Average System Cost*, Subsection A, "Forecast CSC," BPA escalates base period costs to the midpoint of the fiscal year for the FY 2009 Exchange Period to calculate Exchange Period ASCs. BPA projects the costs of power products purchased from BPA using BPA's forecast of prices for its products.

3.4.2. Forecast of Sales for Resale and Power Purchases

BPA does not normalize short-term purchases and sales for resale. The short-term purchases and sales for resale for the Base Period are used as the starting values for the forecast. Utilities are then allowed to include new plant additions and use a utility-specific forecast for the (1) price of purchased power and (2) sales for resale price, to value purchased power expenses and sales for resale revenue. For details, see the 2008 ASC Methodology, Section IV, *Rules for Determining Exchange Period Average System Cost*, Subsection B.

3.4.3. Forecast Contract System Load and Exchange Load

All utilities are required to provide, with their Appendix 1 filings, a four-year forecast of their total retail load, as measured at the meter, and their qualifying residential and small farm retail

load, as measured at the retail meter. Also required is a current distribution loss study as described in the 2008 ASCM, Attachment A, Endnote e. The total retail and residential and small farm load forecasts are adjusted for distribution losses and NLSLs when appropriate. The resulting load forecasts are the Contract System Load forecast and Exchange Load forecast, respectively.

3.4.4. Major Resource Additions

BPA uses the method outlined in the 2008 ASCM, Section IV, *Rules for Determining Exchange Period Average System Cost*, Subsection C to determine the change in ASC due to major new resource additions or reductions, subject to meeting the materiality threshold of 2.5 percent. These additions include new production or new generating resource investments, new transmission investments, long-term generating contracts, pollution control and environmental compliance investments relating to generating resources, transmission resources or contracts, hydro relicensing costs and fees, and plant rehabilitation investments.

The exchanging utility provides its forecast of major resource additions and all associated costs. The forecast covers the period from the end of the Base Period (CY 2006) to the end of the Exchange Period (FY 2009).

The forecast of the major resource costs to be included in the utility's Exchange Period ASC is reviewed and determined during the Review Period. When calculating the utility's Exchange Period ASC, all resources included prior to the start of the Exchange Period are projected forward to the mid-point of the Exchange Period. All resources included during the Exchange Period will be included at the midpoint of the Exchange Period.

3.4.5. Load Growth Not Met by New Resource Additions

All load growth not met by new resource additions is met by purchased power at the forecasted utility-specific short-term purchased power price. BPA uses the method outlined in the 2008 ASCM, Section IV, *Rules for Determining Exchange*, Subsection D.

4. REVIEW OF THE ASC FILING

Pursuant to the 2008 ASCM and section 5(c) of the Northwest Power Act, BPA is responsible for reviewing all costs and loads used to establish ASCs. During this review and evaluation, numerous issues may be identified for comment by BPA or other parties. BPA's ASC determination is limited to specific findings on those issues identified for comment, with the exception of ministerial or mathematical errors. There may have been additional issues that BPA did not identify for comment in this filing. Acceptance of a utility's treatment of an item without comment is not intended to signify a decision of the proper interpretation to be applied either in subsequent filings or universally under the 2008 ASCM. Similarly, given that the current report is one of the first published under the 2008 ASCM, further experience under the 2008 ASCM may result in amendment or refinement of determinations made herein when addressed in future ASC reviews.

4.1. Identification and Analysis of Issues from BPA Issue List

BPA raised the following issues during the ASC Review Process, and Franklin submitted its responses. No other party raised issues or commented on Franklin's responses. Each issue pertains to the October 1, 2008, filing unless otherwise noted.

Although a utility's State regulatory bodies or FERC may allow a particular functionalization to a specific account, this does not require that BPA will follow the same functionalization for the same account in calculating a utility's ASC. BPA retains the discretion to make an independent determination of the appropriateness of inclusion or exclusion of particular costs, as well as the functionalization method used in the calculation of that cost, in conformance with the 2008 ASCM.

4.2. Schedule 1: Plant Investment/Rate Base:

No direct adjustment.

4.3. Schedule 1A: Cash Working Capital

No direct adjustment.

4.4. Schedule 2: Capital Structure and Rate of Return

No direct adjustment.

4.5. Schedule 3: Expenses

No direct adjustment.

4.6. Schedule 3A: Taxes

No direct adjustment.

4.7. Schedule 3B: Other Included Items

4.7.1. Account 421 - Miscellaneous Non-operating Income

Statement of Issue:

Did PGE properly calculate and appropriately functionalize Account 421 - Miscellaneous Non-operating Income, in accordance with the requirements of the functionalization rules of the 2008 ASC Methodology? BPA's January 28, 2009, Issue List, Item 7?

Statement of Facts:

Table 1 of the 2008 ASCM provides that the functionalization method for this account is direct analysis with a default to production.

PGE's Appendix 1 template contained an error for this account. PGE's Appendix 1 template incorrectly listed the default functionalization for Account 421 as production, when it should have been production. PGE functionalized these costs to production and did not perform a Direct Analysis.

Summary of Parties' Positions:

In their February 11, 2009 response to BPA's Issue List PGE said that it "intends to perform a direct analysis on this account."

Analysis of Position:

The description of Account 421 in the FERC Uniform System of Accounts states that

This account shall include all revenue and expense items, except taxes properly includible in the income account, not provided for elsewhere. Related taxes shall be recorded in Account 408, Taxes Other Than Income Taxes, or Account 409.2, Income Taxes, Other Income and Deductions, as appropriate.

Items

1. Profit on sale of timber. (See §1767.16 (g)(3).)
2. Profits from operations of others realized by the utility under contracts.
3. Gains on disposition of investments. Also, gains on reacquisition and resale or retirement of the utility's debt securities when the gain is not amortized or used by a jurisdictional regulatory agency to reduce embedded debt cost in establishing rates. (See §1767.15 (q).)
4. This account shall include the accretion expense on the liability for an asset retirement obligation included in Account 230, Asset Retirement Obligations, related to nonutility plant.
5. This account shall include the depreciation expense for asset retirement costs related to nonutility plant.
6. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in §1767.15(y).

On March 10, 2009, PGE submitted a Direct Analysis of this Account showing that revenues in this Account were related to either non-utility operations or to the distribution function of the company.

Decision:

BPA accepts PGE's direct analysis and will functionalize this account to distribution.

Table 4.8.1: Account 421 Miscellaneous Non-operating Income: (\$)

	Total	Production	Transmission	Dist/Other
As-Filed	6,202,968	6,202,968	0	0
BPA Adjusted	6,202,968	0	0	6,202,968

4.7.2. Account 456 - Other Electric Revenues

Statement of Issue:

Did PGE properly calculate and appropriately functionalize Account 456 – Other Electric Revenues, in accordance with the requirements of the functionalization rules of the 2008 ASC Methodology?

Statement of Facts:

Table 1 of the 2008 ASCM provides that the functionalization method for this account is direct analysis with a default to production.

PGE's Appendix 1 template contained an error for this account. PGE's Appendix 1 template incorrectly listed the default functionalization for Account 421 as production, when it should have been production. PGE functionalized these costs to production and did not perform a Direct Analysis.

PGE's Response:

In their February 11, 2009 response to BPA's Issue List PGE said that it "intends to perform a direct analysis on this account."

Analysis of Positions:

The description of Account 456 in the FERC Uniform System of Accounts states that

This account shall include revenues derived from electric operations not includible in any of the foregoing accounts. It shall also include, in a separate subaccount, revenues received from operation of fish and wildlife and recreation facilities whether operated by the company or by contract concessionaires, such as revenues from leases or rentals of land for cottages, homes, or campsites.

Items

1. Commission on sale or distribution of electricity of others when sold under rates filed by such others.
2. Compensation for minor or incidental services provided for others such as customer billing, and engineering.
3. Profit or loss on the sale of material and supplies not ordinarily purchased for resale and not handled through merchandising and jobbing accounts.
4. Sale of steam, but not including sales made by a steam heating department or transfers of steam under joint facility operations.
5. Include in a separate subaccount, revenues in payment for rights and/or benefits received from others which are realized through research, development, and demonstration ventures. In the event the amounts received are so large as to distort revenues for the year in which received (5 percent of net income before application of the benefit), the amounts shall be credited to Account 253, Other Deferred Credits, and amortized by credits to this account over a period not to exceed 5 years.

On March 10, 2009, PGE submitted a Direct Analysis of this Account showing that revenues in this Account were related to either non-utility operations or to the distribution function of the company.

Decision:

BPA accepts PGE's Direct Analysis of Account 456.

Table 4.8.2: Account 456 Other Electric Revenues: (\$)

	Total	Production	Transmission	Dist/Other
As-Filed	42,553,031	42,553,031	0	0
BPA Adjusted	42,553,031	187,541	4,791,499	37,573,992

4.8. Schedule 4: Average System Cost

No direct adjustment.

5. SUPPORTING DOCUMENTATION:

5.1. Purchased Power and Sales for Resale

No direct adjustment.

5.2. Salaries and Wages

No direct adjustment.

5.3. Labor Ratios

No direct adjustment.

5.4. Distribution Loss Factor

No direct adjustment.

5.5. ASC FORECAST MODEL:

5.5.1. ASC Forecast Model: Long-term natural gas pipeline capacity contract

Statement of Issue

Should the costs of a long term gas pipeline capacity contract be included in Franklin’s ASC Forecast Model?

Statement of Facts:

Franklin sold its right to natural gas pipeline capacity effective November 1, 2007.

Analysis of Positions:

Franklin’s 2007 Annual Report stated

The capacity benefit is not expected to exceed costs over the remaining term of the contract, so the District took action to permanently assign the contract to Terasen Gas Inc. effective November 1, 2007. The District will make a one-time payment to Terasen of approximately \$1.275 million, and thereafter be relieved of future transportation costs of approximately \$1.7 million per year at current rates.

In Franklin’s March 3, 2009 response to BPA’s February 11, 2009 Issue List, Franklin stated

Franklin contracted pipeline capacity to meet 100 percent of the daily natural gas requirements for the District’s share of Frederickson and Pasco generation projects. The district determined the capacity benefit was not expected to exceed costs and permanently assigned the contract to Terasen Gas. The District made payments to Terasen of \$1.5 million and was relieved of future transportation cost. The costs associated should not be included in the Forecast model.

Draft Decision:

BPA will remove the costs associated with the natural gas pipeline contract from Franklin’s ASC Forecast model.

Table 5.6.1: ASC Forecast Model – Natural Gas Transportation Costs

ITEM	As- Filed	As-Amended
Account 557 - Other Expenses	\$7,068,363	\$ 5,368,363

6. OTHER ISSUES

6.1. GENERIC ISSUE LIST

In addition to the above issues specific to Franklin, BPA raised seven issues that may be “generic” to all utilities. Following are the issues, as discussed with the utilities during the Review Process. In general, the IOUs responded in unison. Puget Sound submitted additional comments. Franklin and Snohomish did not respond in writing; however Snohomish voiced support for the IOU’s proposal during the generic issue list discussion at the workshop held on March 4, 2009.

6.1.1. **SCHEDULE 1: Plant Investment/Rate Base: Account 303, Intangible Plant – Miscellaneous**

Statement of Issue:

Whether BPA should adopt a common functionalization for similar types of software assets.

Statement of Facts:

During review of the ASC filings, BPA noticed that Direct Analysis performed by the Utilities resulted in different Functionalization for similar types of software. For example, metering and customer information system (CIS) software were functionalized to Distribution by PGE while PacifiCorp, Puget and NorthWestern functionalized such software using the PTD ratio.

In addition, two utilities, Avista and Idaho, did not perform a direct analysis on software costs included in Account 303 and functionalized all software costs to distribution. The 2008 ASCM specifies that the default functionalization for Account 303 – Intangible Plant - Miscellaneous is Direct, with an option to DIST.

Summary of Parties’ Positions:

The parties generally support the idea of a consistent functionalization of similar types of software. In their February 25, 2009, response to BPA’s Issue List the IOUs stated that:

BPA should maintain consistency in the functionalization of these common types of programs, with costs greater than an identified threshold value, amongst utilities when calculating ASC. In our initial Appendix 1 filings the IOUs have not functionalized certain software the same, we are all in agreement that given a determination by BPA on the proper functionalization of these items the IOUs will support a consistent treatment.

However, some parties filed separate responses concerning functionalization of software included in Account 303. For example, Puget filed separate comments on functionalization of Account 303 software arguing that:

Functionalization of software assets should reflect the regulatory treatment of such software assets in jurisdictional ratemaking.

In calculating ASCS, it may sometimes be appropriate for BPA to maintain consistency in the functionalization of similar types of software assets. In some cases, however, jurisdictional or cost differences may render a consistent or generic treatment insufficient. If BPA were to adopt common functionalization for similar types of software assets, such common functionalization should be a default from which a utility could opt out.

PacifiCorp's February 11, 2009, response to BPA's Issues List stated many times in response to a BPA issue concerning functionalization of a specific piece of software that the "functionalization of a software system should follow the functionalization of the operation it supports." PacifiCorp also offered a conflicting rationale in response to a BPA Issue with a specific piece of software. For example, PacifiCorp's response to functionalization of a Customer Information System argued that "[i]n determining the proper functionalization, the focus should be on what costs the Company is recovering using this computer software."

PGE's February 11, 2009, response to BPA's Issues List stated that:

Account 303 contains many different types of software, some of which should be functionalized using allocation factors rather than directly assigned. The account consists of the following categories and cost assignments:

- Function Specific – Direct assigned
- Customer Service – Direct assigned to distribution then allocated
- Environmental Compliance – PTD allocation of \$55,350
- General Ledger/Payroll – Labor allocation
- Common T & D Software – O&M Allocation, 15% T, 85% D

This allocation method is a hybrid that combines the use of direct assignment and allocation factors. It was developed with oversight from the Oregon Public Utility Commission and is used in PGE rate cases. In the ASC Sch. 3 Expense allocations, A&G expenses, Office Supplies and Office Expenses are assigned using a Labor allocation. To be consistent, General Ledger and Payroll software should also be assigned using a Labor allocation. For PGE, a combination of direct and allocated methods is the most efficient and accurate way to functionalize account 303.

BPA should consider expanding their functionalization methodology to include the hybrid method described above. This method could prescribe a common functionalization based on the type of software. It would not apply a uniform allocation factor to the total of account 303.

NorthWestern Energy's February 11, 2009, response to BPA's Issues List argued that:

NWE believes it appropriate to adopt a common functionalization for similar types of software assets and still allow an IOU the option to functionalize based on its unique accounting applications supported with adequate documentation.

Analysis of Positions:

The 2008 ASCM states “Functionalization of each Account included in a Utility’s Average System Cost (ASC) shall be according to the functionalization prescribed in Table 1, Functionalization and Escalation Codes, beginning on page 18. Direct Analysis on an Account may be performed only if Table 1 states specifically that a Utility may perform a Direct Analysis on the Account with the exception of conservation costs. Utilities will be able to functionalize all conservation-related costs to Production, regardless of the Account in which they are recorded.” Id at 16.

When utilities perform a direct analysis on an Account, they must submit sufficient documentation so that BPA can determine if the functionalization is reasonable. In addition, the 2008 ASCM states that “BPA will not allow Utilities to use a combination of Direct Analysis and a prescribed functionalization method for the same Account. The Utilities can develop and use a functionalization ratio or use a prescribed functionalization method if the Utility through Direct Analysis can justify how the ratio adequately reflects the functional nature of the costs included in any Account or cost item being functionalized by the ratio.” Id. at 17.

BPA’s review of the initial ASC filings revealed that most utilities either used the PTD or Labor ratio to functionalize a majority of Account 303 software. However, the functionalization methodology and rationale for the direct analysis was not consistent among utilities. Some of the statements included by utilities to support functionalization of a specific piece of software using the PTD ratio used terms like “supports all functions of the company”¹ or “supports all areas of the company.”² These catchall phrases, if taken to the extreme, could be used to rationalize using the PTD ratio to functionalize the entire ASC filing using the PTD ratio. Such simple statements do not constitute a valid direct analysis.

BPA and the parties generally support the concept that the functionalization of a software system should follow the functionalization of the operation it supports and how the operation is functionalized under the 2008 ASCM. While the concept is easy enough to understand, it is difficult to implement within the context of a utility’s ASC filing because of how the software is recorded or listed in internal databases of software in the utility information systems and because of the sheer volume of the individual items of software.

For example, a utility may record its customer information system (CIS) as ‘Customer Information System’ or record it by the name of the vendor such as Oracle, Harris, SAP or Ventyx, or by the application name such as Xcellant, Peace, or ConsumerLinX. Repeating this disparate method of recording software in a utility database for a 1,000 or more unique software products that a typical utility may have and the task of functionalizing the software for an ASC filing is difficult and time consuming for a utility analyst that may not have familiarity with the software and how and where it is used within the utility. Given this difficulty, it is not surprising that most utilities and their regulatory commissions use a simple ratio, such as PTD or labor, to functionalize most or all of the software in Account 303. This approach works well for

¹ See, for example, Data Responses ASC-09 PA-BPA-12 and ASC-09-PS-BPA-6

² See, for example, data response ASC-09-PS-BPA-12, and Excel file E302,303,E399,Common 2006 filed.xls, DATA for ASC tab, column W.

development of retail rates which incorporate most, if not all, production, transmission and distribution costs of the utility.

However, a utility's ASC may include only allowable production and transmission costs determined in accordance with the 2008 ASCM. Using the PTD or LABOR ratio for all software costs could result in an incorrect functionalization of costs. For example, the costs of certain software packages are very large relative to others in Account 303, which would cause simple ratios to functionalize a portion of distribution-related software into ASC. For example, in PacifiCorp's Response to BPA Data Request ASC-09-PA-12, PacifiCorp stated that:

The remaining \$462 million consists of various computer hardware and software assets. Two assets dwarf the remaining assets – the Company's accounting software – SAP (\$159 million) and Customer Service System (\$102 million) which support all areas of the Company and have been allocated on the PTD factor.

BPA decided to develop a general framework for use in software functionalization for Account 303 software. It did so to ensure that software costs will be functionalized in accordance with the 2008 ASCM and that similar types of software would receive the same functionalization for all exchanging utilities to the greatest extent possible. In addition, it should allow utilities that decided not to undertake the task of functionalization of Account 303 – Software an "easy to use" framework for functionalization.

Draft Decision:

BPA will functionalize software systems to follow the operation they support or the labor expense that the software replaced. If a utility fails to provide adequate documentation, BPA will functionalize software systems to distribution.

Below is a list that describes and categorizes the bulk of utility software and includes the functionalization BPA will use to functionalize such software categories.

System Categories

- ***Customer/Marketing*** – this category includes such applications as customer information systems for residential, commercial, and industrial customer billing, energy and demand management systems, meter reading, call center operations, and customer relationship management systems.
 - *Customer Information System (CIS)* – systems which manage the residential and small commercial customer information, bill calculation and presentation, and payment processes. Distribution - Accounts 901-910
 - *Industrial Billing* – systems which manage the large industrial customers, bill calculation and presentation processes. Distribution - Accounts 901-910
 - *Energy and Demand Management Systems* – systems and software which design, administer, manage, track, and report on the utility's portfolio of Demand-Side Management (DSM) and Energy Efficiency (EE) programs. Production - Accounts 500-557

- *Call Center Operations* - these systems manage the operations of customer call centers including telephony and data management and employee scheduling and performance management. Distribution - Accounts 901-910
 - *Customer Relationship Management (CRM) System* – systems which manage information about the customers of the utility. Distribution - Accounts 901-910
 - *Advanced Meter Infrastructure (AIM) System* – systems which measure, collect and analyze energy usage from advanced devices through various communication media on request or on a pre-defined schedule. It would also include the infrastructure (e.g., hardware, software, communications, customer associated systems, etc.) and the meter data management system components. Distribution – Account 902
 - *Meter Reading System* – systems which manage the meter reading for residential and commercial customers. It includes meter route management and performs limited meter read validation. Distribution - Accounts 902
- ***Employee Information*** – this category includes such application as employee benefits, human resources, training, time entry, payroll, and compensation management systems.
- *Payroll System* – systems which calculate pay for employees and produces payments (checks or direct deposits). LABOR – Account 920
 - *Human Resources* – systems which maintain employee information required to pay employees and maintain individual employee personal and work-related information. LABOR – Account 920
 - *Training System* – systems which maintain information about all employee training requirements, schedules, certifications, courses, and update/recertification requirements. LABOR – Account 920
 - *Time Entry System* – systems which capture actual time and attendance information for employees. LABOR – Account 920
 - *Compensation Management System* – systems which optimize and automate the salary planning process and maintain information on salary history, company guidelines, employee performance and job aspirations. LABOR – Account 920
- ***Facilities Management*** – this category includes such application as generation operations and management, transmission operations and management, substation operations and management, geographic information systems, asset/facilities management, and computer-aid design systems.
- *Geographic Information System (GIS)* – systems which integrate hardware, software, and data for capturing, managing, analyzing, and displaying all forms of geographically referenced information. Distribution - Accounts 580-599
 - *Computer Aided Design (CAD)* – systems which use computers to aid in the design and particularly the drafting (technical drawing and engineering drawing) of a part or product, including entire buildings. It is both a visual (or drawing) and symbol-based method of communication whose conventions are particular to a specific technical field. Distribution - Accounts 580-599
- ***Financial Information*** – this category includes such application as accounts receivable, accounts payable, general ledger, treasury and cash management, debt management,

operations and capital budget preparation and management, asset accounting, work order accounting, and cost accounting systems.

- *Enterprise Resource Planning (ERP) System* – systems which provide a common foundation for business accounting including common functions such as accounts payable, general ledger, and accounts receivable. Representative vendor solutions include: Lawson Enterprise Financial Management, Oracle B-Business Suite, PeopleSoft Enterprise Financial Management Solutions, and SAP ERP Financials. LABOR – Account 920
 - *Treasury and Cash Management* – systems which maintain information on the cash accounts, investments cash pooling, and banking operations. Representative vendor solutions include: Oracle Cash and Treasury Management Solution, SymPro LABOR – Account 920
 - *Debt Management* – systems which manage the debt owned by the utility including debt instruments, notes, bonds, commercial paper, and stocks. PTDG – Various Accounts
 - *Budget Preparation* – systems which(s) provides for the preparation of both the capital and operational budget. These systems are often incorporated in the ERP system (see above). LABOR – Account 920
 - *Asset Accounting* – systems which automate the continuing property records of the utility. PTDG – Various Accounts
 - *Work Order Accounting* – systems which maintain an automated sub-ledger to the general ledger to account for work-in-progress accounting for both capital and operation and maintenance projects. PTDG – Various Accounts
 - *Cost Accounting* – systems which provide a standard cost accounting capability for both capital projects and operations and maintenance activities. LABOR – Account 920
- **Management Information** – this category includes such application as executive information, key performance indicators, and data warehouse systems.
- *Executive Information* – systems which facilitate and support the information and decision-making needs of senior executives by providing easy access to both internal and external information relevant to meeting the strategic goals of the utility. LABOR – Account 920
 - *Key Performance Indicators* – systems which capture both internal and external information related to key business indicators for senior management. LABOR – Account 920
 - *Business Intelligence* – systems which provide historical, current, and predictive information about the operations of the utility. LABOR – Account 920
- **Market Operations and Trading** – this category includes such application as risk management, market simulation, market interface, transmission rights and access, transmission pricing and billing, wholesale billing and settlement, energy trading and tagging, and market dispatch systems.

- *Risk Management* – systems used to integrate loss data from a variety of sources to develop a comprehensive view of operational risk exposure to the utility. LABOR – Account 920
 - *Market Simulation* – systems used to provide a model of transmission and security-constrained optimization of the system resources against spatially distributed loads. These systems are used to produce realistic projections of market clearing prices and asset utilization levels across the transmission grid. Transmission - Accounts 560-573
 - *Transmission Rights and Access* – systems which maintain data on the utility’s transmission line rights and access policies. Transmission - Accounts 560-573
 - *Transmission Pricing and Billing* – systems which, similar to the *Customer Information System* above, maintain information on transmission system customers, bill calculation and presentation, and payment processes. Transmission - Accounts 560-573
 - *Wholesale Billing and Settlement* – systems which, similar to the *Customer Information System* above, maintain information on wholesale customers, bill calculation and presentation, and payment processes. LABOR – Account 920
 - *Market Dispatch* - LABOR – Account 920
 - *Energy Trading and Tagging* – systems which provide trade processing, risk control and invoicing, credit risk to manage credit exposure, collateral management, and counterparty evaluation. Representative vendor solutions include: Triple Point Technology’s Commodity XL, Allegro, and ADICA’s EMCAS system. Production - Accounts 500-557
- ***Planning Models*** – this category includes such application as resource management, capacity plan, fuel plan, load forecast, purchased power, and financial/rate forecast systems. LABOR – Account 920
- ***Resource Management*** – this category includes such application as materials management, purchasing, warehouse management, inventory, fleet management, fuel management, and alternative energy supply systems.
- *Materials Management* – systems which maintain information on products, price lists, inventory receipts, shipments, movements, and counts within the utility, as well as to and from suppliers. These systems are often incorporated in the ERP system (see above). PTD - Various Accounts
 - *Purchasing* – systems which automate the acquisition of goods and services. These systems are often incorporated in the ERP system (see above). LABOR – Account 920
 - *Warehouse and Inventory Management* – systems which include the physical inventory, shipping, receiving, and picking of items, barcode labeling, and space management. These systems are often incorporated in the ERP system (see above). PTD – Account 163
 - *Fleet Management* – systems which provide for the management and maintenance of all vehicles and equipment used by the utility including scheduling maintenance and preventive maintenance. Distribution - Account 933
 - *Fuel Management* – systems which maintain information on fuel management for the utility’s fleet operations. Distribution - Account 933

- *Alternative Energy Supply* – systems which manage the availability of energy supply from alternative sources which may be outside the control of the utility.
Production - Accounts 500-557
- ***System Operations*** – this category includes such application as outage scheduling, system optimization, load control, generation control, SCADA, energy management, system dispatch, fault restoration, stability analysis, and state estimator systems.
 - *Generation Control* – systems which regulate the power output of electric generators within a prescribed area in response to changes in system frequency, tie-line loading, and the relation of these to each other. Production - Accounts 500-557
 - *Generation Operations and Management* – systems used to maximize plant operating income by optimizing output and heat rates and by reducing maintenance expenses. Production - Accounts 500-557
 - *Substation Operations and Management* – systems used to monitor the operation of substations to maximize performance and ensure safe equipment operations. TD - Accounts 560-573 & 580-599
 - *Supervisory Control And Data Acquisition (SCADA)* – systems which maintain the real-time, as-operated state of the electrical network, tracking remote control and local control operations, temporary network changes, and fault conditions. TD - Accounts 560-573 & 580-599
 - *Energy Management (EMS)*– systems used to reduce energy losses, improve the utilization of the system, increase reliability, and predict electrical system performance as well as optimize energy usage to reduce cost. TD - Accounts 560-573 & 580-599
 - *System Dispatch* – systems used to evaluate and optimize on an hour-ahead and day-ahead basis the dispatch of the utility’s power plants to changing plant conditions, power markets, and contractual obligations. Production - Accounts 500-557
- ***Work Management*** – this category includes such application as plant maintenance, work order, service order, outage management, trouble order, contractor management, and project management systems.
 - *Plant Maintenance* – systems used to plan, manage, and evaluate the required major maintenance activities typically in generation facilities or other major facilities and substations. Production- Accounts 500-557
 - *Work Order* – systems which manage longer-duration work, either capital or operations and maintenance frequently performed by multi-person crews. Distribution - Accounts 580-599
 - *Service Order* – systems which manage the short-interval work of the utility typically performed by service crews. The system would include work scheduling, tracking, and order completion. Distribution - Accounts 580-599
 - *Outage Management* – systems which prioritize restoration efforts based upon criteria such as locations of emergency facilities, size of outages, and duration of outages, extent of outages and number of customers impacted; calculates estimates of restoration times; provides information on crews needed and assisting in restoration; and predicts the location of fuse or breaker that opened upon failure. Representative

vendor solutions include: ABB, GE Energy, Intergraph, Oracle Utilities, and Trimble. Distribution Accounts - 580-599

- **Miscellaneous Software** – For software that is in general and widespread use throughout the utility such as Microsoft Office, Microsoft Exchange Server, Anti-Virus applications Adobe products, or for software where the functional nature cannot be determined and the cost of the software is less than 1% of the total cost in Account 303 – Software.
LABOR

6.1.2. SCHEDULE 1: Plant Investment/Rate Base: Account 182.3, Other Regulatory Assets; Account 254, Other Regulatory Liabilities

Statement of Issue:

Whether BPA should adopt common a functionalization for similar types of regulatory assets and liabilities.

Statement of Facts:

There is inconsistency in the way the IOUs functionalize Deferred Pension, Pay and other labor related Assets and Liabilities. PGE and NW use the Labor Ratio. IPC uses PTD. PSE and PAC functionalize these assets to Distribution. The issue is whether BPA should maintain consistency in the functionalization of deferred pension, pay and other labor related assets and liabilities amongst utilities when calculating ASC.

Summary of Parties' Positions

In PSE's February 25, 2009, response to BPA's Issue list, it stated that:

Functionalization of regulatory assets and liabilities should reflect the regulatory treatment of such regulatory assets and liabilities in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to maintain consistency in the functionalization of deferred pension, pay and other labor related assets and liabilities to the extent that regulatory treatment of the account is the same across utilities and jurisdictions. In some cases, however, jurisdictional or cost differences may render a consistent or generic treatment insufficient. If BPA were to adopt common functionalization for similar types of software assets, such common functionalization should be a default from which a utility could opt out.

Avista, Idaho Power, NorthWestern, PacifiCorp and PGE's February 25, 2009, joint response to BPA's Issue Lists stated that

BPA should maintain consistency in the functionalization of deferred pension, pay and other labor related assets and liabilities amongst utilities when calculating ASC. All of the IOUs agree that it is appropriate for purposes of determining a utility's ASC to functionalize these accounts by the LABOR ratio.

Analysis of Positions:

The 2008 ASCM ROD states that “The Utility must describe the functional nature of the regulatory asset or liability, whether or not the asset or liability is included in rate base by its state commission(s), and the return or carrying costs allowed by the state commission(s). *Under no conditions would regulatory assets be included in ASC at a level greater than regulatory commissions allow them to be recovered in retail rates.*” 2008 ASCM ROD at 149 (emphasis added)

Regulatory assets and liabilities exist in the balance sheets of electric utilities only because of the effects of regulation. FERC defines them as “assets and liabilities that result from rate actions [of] regulatory agencies.”³ The WUTC states that “regulatory assets are a creature of regulatory decisions made by state regulators or FERC. These assets represent costs a Utility is allowed to book and recover in rates over a period of time, rather than expense in a particular period.” *Id.*

Regulatory Assets and Liabilities, Accounts 182.3 and 254 in the FERC Uniform System of Accounts, were established in March of 1993 in FERC Order No. 552, which established uniform accounting treatment for allowances associated with the 1990 Clean Air Act. Order No. 552 also dealt more broadly with accounting for regulatory assets and liabilities for electric and gas utilities.⁴

Regulatory assets and liabilities are a subset of the larger issue of the difference between accounting for utilities that are subject to price regulation and Generally Accepted Accounting Principles (GAAP). The issue can be traced back to the Internal Revenue Act of 1954 which permitted use of accelerated depreciation for income taxes purposes. In 1962, the Accounting Principles Board (precursor to FASB) issued Opinion No. 2, which dealt comprehensively with the issue of accounting for industries subject to price regulation, was prepared in response to questions surrounding the creation of investment tax credits by Congress. Opinion No. 2 stated that all companies are subject to GAAP, but that differences may arise, generally surrounding recognition of cost, for companies subject to price or rate regulation.⁵

Simply because a utility recovers the expense associated with a regulatory asset in rates does not mean that the regulatory asset is also included in a utility’s rate base and earning a return.

After review of the parties’ comments and the 2008 ASCM ROD, BPA believes that functionalization of Regulatory Assets and Liabilities is a two-step process. First, the regulatory asset or liability must be a component of the utility’s jurisdictional rate base. If the regulatory asset or liability is **not** in its jurisdictional rate base, then it is functionalized to distribution.

If the regulatory asset or liability **is included** in the utility’s jurisdictional rate base, then and only then will the utilities be permitted to functionalize the regulatory asset or liability based on the functional nature of the item.

³ 6 See §11.03[2], G. Hahne and G. Aliff, *Public Utility Accounting*, pages 11-5 (Mathew Binder 2005).

⁴ *Ibid.* 11-5

⁵ *Ibid.*

Draft Decision:

Following the Review Processes and publication of the Final ASC Reports for FY 2009, BPA will work with the parties to develop a standard functionalization protocol for common types of regulatory assets and liabilities.

For the FY 2009 ASC Filings, BPA will use consistent decision criteria for common types of Regulatory Assets and Liabilities.

6.1.3. SCHEDULE 1: Plant Investment/Rate Base: Account 182.3, Other Regulatory Assets; Account 186, Miscellaneous Deferred Debits; Account 253, Other Deferred Credits; Account 254, Other Regulatory Liabilities

Statement of Issue:

Whether BPA should require a common functionalization for asset accounts that have a corresponding liability account. For example, whether pension costs in Accounts 182.3 and 254 should have the same functionalization.

Statement of Facts:

A direct analysis is required in the functionalization of Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254). A direct analysis should include maintaining a consistency in functionalization where there is an asset in either Account 182.3 or 186 and offsetting liabilities in either Account 253 or 254.

Summary of Party's Position

Avista, IPC, NorthWestern, PacifiCorp and PGEs February 25, 2009, joint response to BPA's Issue Lists stated that

The IOUs agreed that BPA should require that accounts that have a corresponding asset and liability account have the same functionalization.

PSE's February 25, 2009, Issue List stated that:

Functionalization of Account 182.3 and Account 254 should reflect the regulatory treatment of such accounts in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to maintain consistency in the functionalization of pension costs in Accounts 182.3 and 254 to the extent that there is a direct relationship between an Account 182.3 asset and an Account 254 liability and each such asset and liability receives the same regulatory ratemaking treatment.

However, the appropriate functionalization of both the Account 182 asset and the Account 254 liability should fall out of the Direct Analysis rather than be constrained by predetermined expectations. Direct Analysis should go beyond just the name or title of

the account and reflect the purpose and reason why each account was established. Other than deferred taxes, PSE is unaware of off sets on a particular regulatory asset or liability being booked in opposing accounts. For example, PSE normally nets debits and credits (other than taxes) and books the net in the appropriate asset or liability account.

Analysis of Positions:

BPA and the parties contend that asset accounts that have a corresponding liability account be functionalized consistently.

Draft Decision:

BPA will require a common functionalization for asset accounts that have a corresponding liability account. This includes Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254).

6.1.4. SCHEDULE 1: Plant Investment/Rate Base: Various Other Regulatory Assets and Liabilities

Statement of Issue:

What should be the functionalization of Other Regulatory Assets and Liabilities that are not included in rate base by the regulatory authority? What should be the functionalization of the corresponding income statement accounts for the Regulatory Assets and Liabilities that are not included in rate base by the regulatory authority?

Statement of Facts:

There is an inconsistency between utilities in the functionalization of Regulatory Assets and Liabilities when not included in rate base. Many of these accounts are included in working capital for ratemaking purposes. There is a concern that the treatment of the income statement accounts for the Regulatory Assets and Liabilities are not consistent with the asset and liability treatment for ASC purposes.

For example, PacifiCorp and PSE functionalized all Other Regulatory Assets and Liabilities that are not in their jurisdictional rate base to distribution. IPC, NW, PSE and Avista functionalized several items in these accounts, also not included in its retail rate base, based on the functional nature of the item.

Summary of Parties' Positions:

Avista, IPC, NorthWestern, PacifiCorp and PGE's February 25, 2009, Response to BPA's Issue List stated that

There should be consistency between utilities in the functionalization of Regulatory Assets and Liabilities when not included in rate base. Regulatory Assets and Liabilities

not included in Rate Base have no effect on the Company's income statement. All entries affect only the balance sheet.

PSE's February 25, 2009, response to BPA's Issue List stated that:

Functionalization of Other Regulatory Assets and Liabilities not included in rate base should reflect the regulatory treatment of such assets and liabilities in jurisdictional ratemaking.

This issue illustrates an inconsistency that can exist in the Appendix 1 if an account on the balance sheet defaults to Direct Analysis, but the corresponding accounts on the income statement do not. To resolve this inconsistency, BPA should adjust the income statement to directly assign the component related to the balance sheet account. Forcing the balance sheet accounts to conform to the functional method used for the related income statement account is problematic because of the Direct Analysis default of the balance sheet account.

With respect to the functionalization of balance sheet accounts for which the default functionalization is Direct Analysis, the utility should first determine the regulatory treatment of the balance sheet account. If the balance sheet account was directly included in rate base (i.e., the balance sheet account was included in rate base but not through the regulated working capital component of rate base calculation) for ratemaking purposes, the utility should further review the specific functional nature of the balance sheet account. If, however, the balance sheet account was either not included directly in rate base for ratemaking purposes or was included only via the regulated working capital calculation, the utility should functionalize the balance sheet account to DIST/Other.

Analysis of Positions:

The 2008 ASCM ROD states that "The Utility must describe the functional nature of the regulatory asset or liability, whether or not the asset or liability is included in rate base by its state commission(s), and the return or carrying costs allowed by the state commission(s). *Under no conditions would regulatory assets be included in ASC at a level greater than regulatory commissions allow them to be recovered in retail rates.*" 2008 ASCM ROD at 149 (emphasis added).

Regulatory assets and liabilities exist in the balance sheets of electric utilities only because of the effects of regulation. FERC defines them as "assets and liabilities that result from rate actions regulatory agencies."⁶ The WUTC states that "regulatory assets are a creature of regulatory decisions made by state regulators or FERC. These assets represent costs a Utility is allowed to book and recover in rates over a period of time, rather than expense in a particular period." Id.

Regulatory Assets and Liabilities, Accounts 182.3 and 254 in the FERC Uniform System of Accounts, were established in March of 1993 in FERC Order No. 552, which established uniform accounting treatment for allowances associated with the 1990 Clean Air Act. Order No.

⁶ 6 See §11.03[2], G. Hahne and G. Aliff, *Public Utility Accounting*, pages 11-5 (Mathew Binder 2005).

552 also dealt more broadly with accounting for regulatory assets and liabilities for electric and gas utilities.⁷

Regulatory assets and liabilities are a subset of the larger issue of the difference between accounting for utilities that are subject to price regulation and Generally Accepted Accounting Principles (GAAP). The issue can be traced back to the Internal Revenue Act of 1954, which permitted use of accelerated depreciation for income taxes purposes. In 1962, the Accounting Principles Board (precursor to FASB) issued Opinion No. 2, which dealt comprehensively with the issue of accounting for industries subject to price regulation, was prepared in response to questions surrounding the creation of investment tax credits by Congress. Opinion No. 2 stated that all companies are subject to GAAP, but that differences may arise, generally surrounding recognition of cost, for companies subject to price or rate regulation⁸

Simply because a utility recovers the expense associated with a regulatory asset in rates does not mean that the regulatory asset is also included in the utility's rate base and earning a return.

Regulatory assets and liabilities are eventually moved from the balance sheet to the income statement through recognition of the revenue or expense. They are only on the utility balance sheets because of regulation. BPA and its customers reviewed revenue and expense accounts in detail during the 2008 ASCM consultation process and the 2008 ASCM has functionalization rules for those accounts. BPA will not change the functionalization of an income statement account as a result of a direct analysis on regulatory assets and liabilities.

Draft Decision:

Regulatory assets and liabilities must be included in a utility's jurisdictional rate base in order to be included rate base for ASC purposes. BPA will not change the functionalization rules of an income statement account as the result of a direct analysis on a regulatory asset or liability.

6.1.5. SCHEDULE 3: Expenses: Account 555, Purchased Power Expenses; Account 447, Sales for Resale; Price Spread

Statement of Issue:

How should book-outs and trading adjustments be treated for calculations of purchased power expense and sales for resale revenue and the price spread calculation? Should the treatment be consistent across utilities?

Statement of Facts:

PacifiCorp reduced the amount of its purchased power expense and sales for resale revenue by book-outs and trading adjustments. Other utilities did not.

The inclusion book-outs and trading adjustments in purchased power and sales for resale accounts affects the price spread calculation.

⁷ Ibid. 11-5

⁸ Ibid.

Summary of Parties' Positions:

Avista, IPC, NorthWestern, PacifiCorp and PGE's February 25, 2009, response to BPA's Issue List stated that

The IOUs support a consistent reporting of purchase power expenses and sales for resale among the exchanging utilities for the determination of price spread. If Bonneville determines the amounts used to calculate each company's price spread and reported in the FERC Form 1 should be without book-outs the IOUs agree to report and calculate accordingly.

PSE's February 25, 2009, response to BPA's Issue List stated that

PSE supports the use of the price spread, and the calculation of the price spread should be the same across all utilities. PSE understands that the objective of the price spread is to reflect the individual utility's experience in the wholesale market. Introducing differences in the calculation from utility to utility\ introduces more than just market differences and may distort the result when compared across utilities. Such inconsistencies in the data input to the calculation of the price spread should be avoided.

Analysis of Positions:

Both BPA and IOUs support a consistent reporting of purchase power expenses and sales for resale among the exchanging utilities for the determination of price spread.

Draft Decision:

Utilities shall not adjust their purchase power and sales for resale for the effects of bookouts and trading adjustments.

6.1.6. ASC Forecast Model: New Plant Additions – Natural Gas Prices

Statement of Issue:

Whether BPA should adopt a common natural gas price forecast in the ASC Forecast Model for all new natural gas-fired plant additions.

Statement of Facts:

Forecasted natural gas prices vary significantly between utilities that have new natural gas-fired generating resources after the Base Period. None of those utilities submitted documentation or copies of firm natural gas supply contracts to support their projected natural gas prices.

Summary of Parties' Positions:

Avista, IPC, NorthWestern, PacifiCorp and PGE's February 25, 2009, response to BPA's Issue List stated that

The IOUs propose that it is reasonable to use a third party gas price forecast in the determination of an exchanging utility's ASC. The IOUs believe that the third party gas price forecast that BPA uses would be appropriate or another publicly available gas price forecast. In addition, if a given exchanging utility desires to use a different gas price for their new resource it is understood that they will have to supply all necessary data in support of their alternative gas price forecast.

PSE's February 25, 2009, response to BPA's Issue List stated that

Natural gas price forecasts should reflect the regulatory treatment of natural gas price forecasts in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to use a third party gas price forecast for the gas commodity component of fuel cost. If BPA were to use such a third party gas price forecast, BPA should then reflect basis or hub differences as adjustments to this commodity price. BPA should also make adjustments for firm gas transportation costs on a utility-by-utility, resource-specific basis. These transportation cost adjustments would reflect the extent to which firm gas transportation contracts are in place for the specific new resource. In some cases, however, jurisdictional or cost differences may render a third party gas price forecast insufficient. If BPA were to use a third party gas price forecast, such third party gas price forecast should be a default from which a utility could opt out.

The OPUC's March 3, 2009, response to BPA's Issue List recommended that BPA use

The natural gas forward market prices existing at the time of utility filings for nearest available Hub, such as Sumas, to account for the average commodity cost of fuel for new natural gas generating resources unless a utility demonstrates other commodity contractual prices for its new resource(s). This would have the affect of removing BPA and utility guesses when accounting for the commodity cost of fuel for new natural generating resources. Natural gas market price forecasts are by their very nature tenuous.

The OPUC also recommended

That BPA add charges for pipeline transportation and any other known fuel related charges to this commodity cost of fuel. In this regard, utilities include both fixed (Reservation) and variable pipeline charges in their Account 547, Other Power – Fuel. It should be recognized pipeline charges calculated on a unit basis, for instance dollars per MMBtu, vary with capacity factor. For example, Northwest Pipeline's tariff currently shows a maximum reservation charge of about 38 cents per MMBTU/day firm receipt/delivery capacity. If a utility plant having firm pipeline transportation for all of its maximum daily operation normally operates at 25 percent, then this pipeline charge equates to an average cost of \$1.52 per delivered MMBTU (38 cents at full operation divided by 25 percent actual operation). So, when accounting for new resource other power fuel costs, BPA should also utilize pipeline tariffs in deriving the pipeline cost of transporting natural gas fuel from hub to plant gate along with plant capacity information unless a utility demonstrates other contractual pipeline charges.

OPUC's March 10, 2009, response to issues reiterated the above statements and stressed the need that whatever forecast was chosen should be available to parties through discovery in order to allow the parties to consider the reasonableness of the forecast.

Snohomish supports a common natural price forecast that is used in the ASC Forecast Model. Snohomish would support the use (by BPA) of third-party forecasting for natural gas prices, rather than BPA internal staff.

Analysis of Positions:

All of the respondents supported the option of adopting a common natural gas price forecast in the ASC Forecast Model for all new natural gas-fired plant additions.

The parties also supported the principle that the prices should reflect basis or hub differences as adjustments to the commodity price.

It was also suggested that the price should reflect adjustments for firm gas transportation costs on a utility-by-utility, resource-specific basis.

The parties contended that the use of a third party gas price forecast to achieve consistency between the exchanging utility's natural gas forecasts should not preclude a utility from using its own forecast.

BPA agrees with the parties that a common gas forecast would be one reasonable approach. However, using the utility-supplied natural gas forecasts from the utilities' October 1, 2009, ASC filings is a better option for FY 2009. Such forecasts would more closely match projected gas prices that were used to set the PF Exchange Rate in BPA's 2007 Supplemental Rate Proceeding than would using a more recent forecast. In addition, BPA has been paying REP benefits based on ASCs containing these natural gas price forecasts. Switching to a new forecast at this time could result in large true-ups when the final ASCs are determined. This approach is also reasonable on a one-time basis because it is based on the utilities' own forecasts, which the utilities presumed to be reasonable when filed. This approach for FY 2009, however, does not constitute a precedent for future ASC determinations.

Draft Decision:

BPA will accept the utilities' as-filed projected natural gas prices used for new resources for FY 2009 ASC filings.

6.1.7. ASC Forecast Model: New Plant Additions – Capacity Factor

Statement of Issue:

Should BPA use common representative capacity factors in the ASC Forecast model for estimating the operating costs and expected energy output for new plant additions?

Statement of Facts:

Projected capacity factors vary significantly between utilities for similar types of new resources.

Summary of Parties' Positions:

PSE's February 25, 2009 response to BPA's Issue List stated that "Capacity factors for specific new resources should reflect the regulatory treatment of capacity factors in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to use common, representative capacity factors in the ASC Forecast model. In some cases, however, jurisdictional or cost differences may render common, representative capacity factors insufficient. If BPA were to use common, representative capacity factors, such common, representative capacity factors should be a default from which a utility could opt out."

Avista, Idaho Power, NorthWestern, PacifiCorp & PGE's February 25, 2009 response to BPA's Issue List stated that "The IOUs propose that they will use a capacity factor within the range of capacity factors listed below for new resources coming online during the rate period.

<u>Resource Type</u>	<u>Capacity Factor</u>
Combined Cycle CT	45% to 75%
Simple Cycle CT	1% to 30%
Wind	25% to 45%
Geothermal	greater than 90%

Again, it is understood that if a utility chooses to use capacity factor outside the above range for a given new resource that utility will have to supply complete justification for such capacity factor."

Analysis of Positions:

After a discussion with the parties, BPA will defer a decision on this issue until after the FY 2010 - 2011 ASC Review Process is completed so that it can devote more time to this complex issue. Developing representative projected capacity factors for new resources is not a trivial exercise. Projected streamflows, electric market prices, natural gas prices and heat rates must be analyzed before representative capacity factors can be developed for new natural gas-fired resources. For projected wind resources, the Pacific Northwest region is just beginning a major expansion with little historical data to use as a benchmark for developing representative capacity factors. Based on the exceedingly small amount of data on wind capacity factors available, BPA and parties observed differences by location, but more time and research needs to be devoted to this effort. BPA and some of parties believe that this issue should be deferred to future ASC filings to develop more robust estimates of projected capacity factors for new resources.

Some of the filing utilities submitted revised capacity factors that reduced somewhat the variance in capacity factors for new generating resources. Partly for this reason, it is reasonable to accept utilities' respective as-filed capacity factors in establishing FY 2009 ASCs.

Draft Decision:

The capacity factors submitted by each utility will be accepted for this FY 2009 Review Process. BPA, however, makes no precedential decision at this time. This issue will be revisited in future ASC filings.

7. FY 2009 ASC

Overall BPA adjustments did not change Franklin's CY 2006 ASC and increased Franklin's FY 2009 ASC by \$2.93/MWh. Franklin's ASC for FY 2009, prior to the addition of any new resources is \$47.09/MWh.

8. REVIEW SUMMARY

This draft ASC determination is BPA's best estimate of Franklin's FY 2009 ASC based on the information and data provided by Franklin to date, and based on the professional review, evaluation, and judgment of BPA's REP staff. BPA will solicit and review comments of on this Draft Report and the Draft Reports of all other exchanging utilities' for FY 2009. After review of such comments, BPA will make final ASC determinations used to calculate REP benefits for each exchanging utility for FY 2009. Final ASC determinations will be published in June, 2009.

The as-filed Appendix 1 Filing, including the ASC Forecast Model and supporting documentation used to calculate Franklin's ASC can be viewed at BPA's REP website: <http://www.bpa.gov/corporate/finance/ascm/filings.cfm>.

9. ADMINISTRATOR'S APPROVAL

I have examined Franklin's ASC filing, as amended, and the administrative record of the ASC Review Process. Based on this review and the foregoing analysis of the issues, I certify that this ASC determination conforms to the 2008 ASC Methodology and generally accepted accounting principles, and fairly represents Franklin's ASC.