

FY 2009 AVERAGE SYSTEM COST FINAL REPORT

PACIFICORP

June 2009



FY 2009 AVERAGE SYSTEM COST

FINAL REPORT

FOR

PacifiCorp

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

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1. FILING DATA

Utility: **PacifiCorp**
825 NE Multnomah
Portland, OR 97232
<http://www.pacificorp.com>

Parties to the Filing:

Investor-Owned Utilities (IOUs):

Avista Utilities (Avista)
Idaho Power Company (IPC)
NorthWestern Energy (NorthWestern or NWE)
PacifiCorp (PAC)
Portland General Electric (PGE)
Puget Sound Energy (PSE)

Consumer-Owned Utilities (COUs):

Franklin County PUD (Franklin)
Snohomish County PUD (Snohomish)

Other Participants to the Filing:

Idaho Public Utility Commission
Public Power Council
Public Utility Commission of Oregon (OPUC)
Washington Utilities and Transportation Commission (WUTC)

ASC Base Period: CY 2006

Effective Exchange Period: FY 2009 (October 1, 2008 – September 30, 2009)

Statement of Purpose:

Bonneville Power Administration (BPA) has conducted an Average System Cost (ASC) Review Process to determine PAC's ASC for FY 2009 based on BPA's 2008 ASC Methodology (ASCM). This ASC Final Report describes the process, evaluation, and results of BPA's ASC review.

General Information can be found at <http://www.bpa.gov/corporate/finance/ascm/index.cfm>

NOTE: If the filing utility or an intervenor wished to preserve any issue regarding BPA's ASC Final Reports for subsequent administrative or judicial appeal, they must have raised such issue in their comments on BPA's ASC Draft Reports. If a party failed to do so, the issue is waived for subsequent appeal.

2. AVERAGE SYSTEM COST SUMMARY

2.1. Base Period ASC

The 2008 ASCM requires utilities participating in the ASC Review Process, both IOU's and COU's 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 Analysis (COSA), for COUs. The submitted information includes the Appendix 1, the 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 the CY 2006 Base Period ASC based on (1) the ASC information filed by PAC on October 1, 2008 (including errata, if applicable), and (2) the same information as adjusted by BPA, including in response to comments submitted by the utility and/or intervenors during 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 As Filed	June 19, 2009 ASC Final Report
Production Cost	\$842,165,605	\$838,923,117
Transmission Cost	\$174,610,934	\$171,747,844
(Less) NLSL Costs	\$0	\$0
Contract System Cost	\$1,016,776,539	\$1,010,670,961
Total Retail Load (MWh)	21,409,637	21,409,637
(Less) NLSL	0	0
Total Retail Load (Net of NLSL)	21,409,637	21,409,637
Distribution Losses	573,778	573,778
Contract System Load	21,983,415	21,983,415
CY 2006 Base Period ASC (\$/MWh) (CSC / CSL)	46.25	45.97

2.2. 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 mid-point 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 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, if any, 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 as adjusted by BPA, including in response to comments submitted by the utility and/or intervenors during the ASC Review Process.

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

As-Filed FY 2009 Exchange Period ASC				
Resource	Lake Side Capital Building	Group 1	Chehalis (525 MW)	N/A
Expected On-Line Date	07/01/07	08/01/08	09/01/08	
Delta*	-1.14	1.1	-0.69	

ASC Final Report FY 2009 Exchange Period ASC				
Resource	Group A	Group B		N/A
Expected On-Line Date	06/01/08	09/01/08		
Delta*	1.33	1.26		

*The Delta is the incremental change in the ASC as the new resources come on line. (See Section 5.5.2)

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

As-Filed FY 2009 Exchange Period ASC				
Resource	Group 3	Group 4	N/A	N/A
Expected On-Line Date	04/01/09	04/01/09		
Delta*	1.25	0.61		

ASC Final Report FY 2009 Exchange Period ASC				
Resource	Group C		N/A	N/A
Expected On-Line Date	04/01/09			
Delta*	1.62			

*The Delta is the incremental change in the ASC as the new resources come on line. (See Section 5.5.2)

2.3. FY 2009 Exchange Period ASC for the ASC Final Report

The following table identifies the Exchange Period ASC as filed on October 1, 2008, including errata, if applicable, and as adjusted by BPA for this ASC Final Report. The ASC includes major new resource additions projected to come on-line prior to the start of the Exchange Period only. The Exchange Period ASC will adjust as necessary as additional major new resources come on-line, and as identified in Table 2.2.2 above. The procedures used in making the determinations and any required changes are prescribed by the 2008 ASCM and described in the following sections.

**Table 2.3.: Exchange Period FY 2009 ASC (\$/MWh)
Prior to New Resource Additions**

Date	October 1, 2008 As-Filed	June 19, 2009 ASC Final Report
FY 2009	49.76	51.74

3. FILING REQUIREMENTS

3.1. Introduction

Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), 16 U.S.C. § 839c(c), established the REP. Any Pacific Northwest utility interested in participating in the REP may offer to sell power to BPA at the average system cost (ASC) of the utility's resources. In exchange, BPA offers to sell an "equivalent amount of electric power to such utility for resale to that utility's residential users within the region" at the BPA rate established pursuant to Section 7(b)(1) of the Act. *See generally* H.R. Rep. No. 976, Pt. I, 96th Cong., 2d Sess. 60 (1980). The cost benefits established by the REP are passed through directly to the exchanging utilities' residential and small farm consumers. 16 U.S.C. § 839c(c)(3).

The Northwest Power Act gives BPA's Administrator the discretionary authority to determine ASC on the basis of a methodology established in a public consultation proceeding. 16 U.S.C. § 839c(c)(7). The only express statutory limits on the Administrator's authority are found in Sections 5(c)(7)(A), (B) and (C) of the Act. 16 U.S.C. §§ 839c(c)(7)(A), (B) and (C).

BPA's first ASC Methodology was developed in consultation with regional interests in 1981. *See* 48 Fed. Reg. 46,970 (Oct. 17, 1983). It was later revised in 1984. *See* 49 Fed. Reg. 39,293 (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. *See generally, Portland General Elec. Co. v. Bonneville Power Admin.*, 501 F.3d 1009 (9th Cir. 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 ASC Methodology 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 October 10, 2008, the Commission granted interim approval to BPA's 2008 ASCM. *See Sales of Elec. Power to the Bonneville Power Administration, Revisions to Average System Cost Methodology*, 73 Fed. Reg. 60,105 (Oct. 10, 2008).

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 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. 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 (CY 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 mid-point of the effective Exchange Period. The Base Period and Exchange Period 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.

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 ASC Final 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 October 10, 2008. The preliminary review resulted in the publication of a ASC Draft Report. The utility's comments on the ASC Draft Report are noted and addressed herein. In addition, parties had a full and complete opportunity to intervene in BPA's ASC Review Processes and to submit comments on the utilities' ASC filings and ASC Draft Reports.

The Review Processes for FY 2009 are complete. The final ASC determinations and supporting justifications are published in the ASC Final Report for each participating utility and can be viewed at <http://www.bpa.gov/corporate/finance/ascm/fy09-asc-final-reports.cfm>.

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.

Next, in order to reflect the book value of the remaining plant, depreciation and amortization reserves are evaluated and entered into the Appendix 1 form and functionalized. These are then subtracted from the Gross Electric Plant In-Service to determine the Net Electric Plant In-Service.

The resulting Net Electric Plant is adjusted, where appropriate, to reflect additions in Cash Working Capital (calculated in Schedule 1A), Utility Plant, Property and Investments, Current and Accrued Assets, and Deferred Debits. It is adjusted again, where appropriate, to deduct the Current and Accrued Liabilities, and Deferred Credits. The outcome of these adjustments defines the Production, Transmission, and/or Distribution/Other components of Total Rate Base.

3.3.2. Schedule 1A – Cash Working Capital

Cash working capital is a ratemaking convention that is not included in the FERC Form 1, but is a part of all electric utility rate filings as a component of rate base. To determine the allowable amount of cash working capital in rate base for a utility, BPA allows one-eighth of the functionalized costs of total production expenses, transmission expenses and administrative and general expenses less purchased power, fuel costs, and public purpose charges.

3.3.3. Schedule 2 – Capital Structure and Rate of Return

This schedule lists the data used by the utility to develop the rate of return applied to the utility's rate base developed on Schedule 1 to determine the utility's return on investment.

Investor-owned utilities (IOU) use the weighted cost of capital (WCC) from their most recent State Commission Rate Order with a Federal income tax adjustment to determine the return calculation. The return on equity (ROE) used in the WCC calculation is grossed up for Federal income taxes at the marginal Federal income tax rate using the formula found in the ASCM, Attachment A, Section IX, Endnote b. For consumer-owned utilities (COU), the rate of return is equal to the COU's weighted cost of debt times total rate base as determined in Schedule 1.

When the Net Production and Transmission Plant in Service is multiplied by the Rate of Return as determined in Schedule 2, the result is the utility's return on investment.

3.3.4. Schedule 3 – Expenses

This schedule represents operations and maintenance expense for the production, transmission and distribution of electricity. Each expense item is functionalized as outlined in the 2008 ASCM, Table 1. Additional expenses associated with customer accounts, sales, administrative and general expense, conservation program expense, and depreciation and amortization expense associated with Electric Plant in Service are also included. The sum of these costs is Total Operating Expenses.

3.3.5. Schedule 3A – Taxes

This schedule presents allowable ASC costs for Federal employment tax and certain non-Federal taxes, including property and unemployment taxes. State income taxes, franchise fees, regulatory fees, and city/county taxes are included but are functionalized to Distribution/Other and therefore not incorporated in ASC. Taxes and fees for each state listed are grouped together and entered as “combined” line items for Appendix 1 filing purposes.

Federal income taxes included in ASC are calculated and described in Schedule 2 above, *Capital Structure and Rate of Return*.

3.3.6. Schedule 3B – Other Included Items

This schedule includes revenues from the disposition of plant, sales for resale, and other revenues, including electric revenues and revenues from transmission of electricity to others (wheeling). Items in this schedule are deducted from the total costs of each utility.

3.3.7. New Large Single Loads

A New Large Single Load (NLSL) is any load associated with a new facility, an existing facility or an expansion of an existing facility, which was not contracted for or committed to (CF/CT) prior to September 1, 1979, and which will result in an increase in power requirements of the specific customer of ten average megawatts (10 aMW) or more in any consecutive twelve-month period.

BPA determines the cost of serving NLSLs by using the fully allocated cost of all post-September 1, 1979, resources and long-term power purchases greater than five years in duration.

By law, NLSLs and the associated costs to serve them are not included in utilities' ASCs. *See* 16 U.S.C. § 839c(c)(7)(A).

3.3.8. Schedule 4 – Average System Cost (\$/MWh)

This schedule summarizes the cost information calculated in Schedules 2 through 3B: Federal income tax adjusted return on rate base, total operating expenses, state and other taxes, and other included items. The schedule also identifies the Contract System Cost and Contract System Load, as defined below, and calculates the utility's ASC (\$/MWh).

Contract System Cost:

Contract System Cost (CSC) includes the utility's costs for production and transmission resources, including power purchases and conservation measures, which are includable in and subject to the provisions of the Appendix 1. Costs to serve NLSLs are excluded from ASC calculations. CSC becomes the numerator in calculating ASC.

Contract System Load (MWh):

The Contract System Load (CSL) is the total regional retail load, adjusted for distribution losses and NLSL, pursuant the 2008 ASCM. The CSL is the denominator in calculating ASC.

3.3.9. Distribution of Salaries and Wages

This supporting file is used to determine the Labor Ratio calculations and includes salaries and wages from relevant operations and maintenance of the electric plant.

3.3.10. Purchased Power and Sales for Resale

Purchased Power is an Account of Schedule 3, *Expenses*, and includes all power purchases the utility made during the year, including power exchanges. Sales for Resale is an Account of Schedule 3B, *Other Included Items*, and includes power sales to purchasers other than ultimate consumers. Listed in the information for both Accounts is the statistical classification code for all transactions. Refer to the FERC Form 1, pages 310-311 for Sales for Resale and pages 326-327 for Purchased Power for identification of the classification codes.

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 mid-point of 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. *See also* 18 C.F.R. § 301.5(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 mid-point of the fiscal year for the FY 2009 Exchange Period to calculate Exchange Period ASCs. *See* 18 C.F.R. § 301.5(a). 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. *See* 18 C.F.R. § 301.5(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. *See*

18 C.F.R. § 301.5(c). 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, the costs of all resources included prior to the start of the Exchange Period are projected forward to the mid-point of the Exchange Period. The costs of all resources included during the Exchange Period will be included at the mid-point 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. See 18 C.F.R. § 301.5(d).

4. REVIEW OF THE ASC FILING

Pursuant to Section III, subsection C of 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. See 18 C.F.R. § 301.4(c)(1). 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 BPA adopting a modified or different interpretation of the methodology in future ASC reviews.

On April 13, 2009, BPA published a ASC Draft Report for PAC. PAC and each intervenor had the opportunity to comment on the ASC Draft Report. All comments have been reviewed and addressed in reaching a final decision on each issue.

As noted in Section 1 above, if PAC or any intervenor failed to comment on a specific issue outlined in the ASC Draft Report, the utility or intervenor waives the right to subsequent appeal that issue.

4.1. Identification and Analysis of Issues from BPA Issue List

During the ASC review process, BPA raised a number of issues regarding PAC's ASC. PAC responded to these issues during the ASC review process and in comments on the ASC Draft Report. No other party raised issues with or commented on PAC'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, BPA is not required to follow this treatment when calculating ASCs under the 2008 ASCM. Rather, BPA is tasked with making an independent determination of the appropriateness of inclusion or exclusion of particular costs, the reasonableness of the costs included in Contract System Costs, the appropriateness of Contract System Loads, as well as the functionalization method used in the calculation of any cost, in conformance with the 2008 ASCM. *See* 2008 ASCM, Section III.C; 18 C.F.R. § 301.4(c)(1).

4.2. SCHEDULE 1: Plant Investment/Rate Base:

4.2.1. Account 303, Intangible Plant Miscellaneous: KWH HISTORICAL DATA COLLECTION

Statement of Issue:

What is the correct functionalization of Account 303 – 3031570: KWH HISTORICAL DATA COLLECTION?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC stated that the KWH HISTORICAL DATA COLLECTION asset supports the Transmission and Generation functions of the Company and should be functionalized using the PT ratio. (*See* PAC's Issue List Response to BPA, Issue 1.) PAC believed PT was not an "allowable" functionalization, and therefore functionalized it using the PTD ratio. (*See* PAC's Response to BPA Data Request 33 filed January 8, 2009.)

Direct Analysis does not preclude the direct functionalization of an account by any means as long there is a clear description and justification for the functionalization.

Parties' Positions:

PAC proposes that a specific subaccount of Account 303 should be functionalized using the PT ratio and proposes that the ratio should be plant-based.

BPA staff supports the use of the PT ratio as long the ratio is supported by Direct Analysis.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

Direct Analysis does not preclude the direct functionalization of an account by any means as long there is a clear description and justification for the functionalization.

The KWH HISTORICAL DATA COLLECTION asset supports the Transmission and Generation functions of the Company and should be functionalized using the PT ratio.

BPA supports changing the functionalization of the subaccount to the PT ratio based on plant.

Decision:

The Account 303 – 3031570: KWH HISTORICAL DATA COLLECTION asset will be functionalized using the PT ratio based on plant.

**Table 4.2.1: Account 303, Intangible Plant Miscellaneous
KWH HISTORICAL DATA COLLECTION
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
KWH Historical Data Collection	PTD	\$ 348	\$ 156	\$ 68	\$ 123
Adjusted					
KWH Historical Data Collection	PT	\$ 348	\$ 285	\$ 62	\$ -

4.2.2. Account 303, Intangible Plant Miscellaneous: *CUSTOMER SERVICE SYSTEM (CSS)*

Statement of Issue:

What is the correct functionalization of Account 303 – 3031830: CUSTOMER SERVICE SYSTEM (CSS)? Does the Direct Analysis justify the functionalization of the account using the PTD ratio? Should this asset be functionalized to Distribution to conform to the O&M Accounts?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC stated that the Customer Service System is the software that contains information on all of the Company's customers. PAC contends that the system bills customers for Generation, Transmission, and Distribution services and is thus appropriately functionalized using the PTD ratio.

PAC argues that "although the business is used to bill retail customers, it would be inappropriate to functionalize these costs solely to Distribution. In determining the proper functionalization, the focus should be on what costs the Company is recovering using this computer software. The Company states that it is recovering all costs, including wholesale costs, using this software and therefore the assignment of the software to PTD is appropriate." (*See* PAC's Issue List Response to BPA, Issue 2)

Parties' Positions:

PAC argues that "although the business is used to bill retail customers, it would be inappropriate to functionalize these costs solely to Distribution. In determining the proper functionalization, the focus should be on what costs the Company is recovering using this computer software. The Company states that it is recovering all costs, including wholesale costs, using this software and therefore the assignment of the software to PTD is appropriate."

BPA staff believes 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. *See* Section 6.1.1 of this Report.

Analysis of Positions:

Section VIII.B, Table 1 of the 2008 ASCM provides that functionalization of Account 303 is Direct Analysis with a default to Distribution. *See* 18 C.F.R. § 301.9(a). When utilities perform a Direct Analysis on an Account, they must submit sufficient documentation so that BPA can determine if the proposed functionalization is reasonable. *See* 2008 ASCM, Section VIII.A.2; 18

C.F.R. § 301.9(c)(2). Failure to submit the necessary documentation will “result in the entire account being functionalized to Distribution/Other . . . as appropriate.” *Id.*

In addition, the 2008 ASCM provides 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.*

2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2) (emphasis added); *see also* 2008 ASCM ROD, at 29.

BPA’s review of the exchanging utilities’ 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. Such simple statements do not constitute a valid Direct Analysis. As such, under the ASCM, BPA has the authority to functionalize all of the items in Account 303 to Distribution/Other.

Nonetheless, because this ASC Final Report involves one of the first ASCs to be formally developed under the 2008 ASCM, BPA proposed to allow software costs into ASC based on the generic function of the software in the utility industry. This construct is described in more detail in the Generic Issue discussion under Section 6.1.1 of this report. In general, BPA’s approach was to first look at the Direct Analysis performed by the utility. If the documentation supplied by the utility supported its proposed functionalization, BPA would follow the utility’s treatment. However, if the utility could not support its proposed functionalization, BPA would then functionalize the costs to Distribution/Other unless BPA could determine the function that the software supported. For this, BPA looked to general utility common practices and uses of the pertinent software program. If BPA could determine that the particular software program supported resource-related functions in the utility industry, the software system would be functionalized accordingly. BPA developed this approach for Account 303 because it ensured that software costs would 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.

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.

In the instant case, Customer Service Systems (CSS) include costs of programs that manage retail customer information, bill calculation and presentation, and payment processes. In the description of the software provided in PAC's response to BPA Data Request 33 filed January 8, 2009, the software appears to be primarily used in the retail part of PAC's business. PAC's justification provided in the data response for using the PTD ratio for this account was that the CSS is "recovering all costs, including wholesale costs, using this software and therefore the assignment of the software to PTD is appropriate." See PAC's Issue List Response to BPA, Issue 12. As noted above, such catchall phrases, without proper documentation and support, could be used to justify the use of the PTD ratio to functionalize the entire ASC filing. Without supporting documentation or analysis, a blank statement that the program supports all functions is insufficient to meet the requirements of a Direct Analysis under the 2008 ASCM. As such, PAC has failed to "justify how the ratio adequately reflect the functional nature of the costs included in any Account or cost item being functionalized by the ratio." See 2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2). Consequently, because PAC has not provided sufficient information to support its PTD functionalization, the costs associated with CIS must be functionalized to Distribution.

Moreover, based on the information provided, the proper functionalization of CSS is to Distribution/Other. The CSS software programs appear to be used primarily for the billing process of the retail side of PAC's business. Even though the software is used to bill the expenses incurred by Production, Transmission, and Distribution services, the expense and sophistication of the software is driven by the size and diversification of the retail (distribution) side of the business.

Second, the software replaces tasks that were previously performed manually and were charged to the Customer Accounts Expenses, Accounts 901-905. The 2008 ASCM functionalizes Accounts 901-905 to Distribution. See 2008 ASCM, Section III.B, Table 1; see 18 C.F.R. § 301.9(a), Table 1. The functionalization of software that performs or replaces work or manual processes should generally follow the functionalization of the account where the work was performed. For example, automated generation control software that automatically adjusts load and other controllable variables of a generation plant that were previously performed by plant operators would be functionalized to Production. BPA will functionalize software in Account 303 based on the functionalization of the Account where the expenses for the work process performed by the software are charged, which for Customer Information (CIS) software is Accounts 901-910 (See Section 6.1.1) or in CSS in PAC's case.

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 and therefore should be functionalized to Distribution /Other. See Section 6.1.1 of this Report.

Decision:

Account 303 – 3031830: CUSTOMER SERVICE SYSTEM (CSS) will be functionalized to Distribution/Other.

**Table 4.2.2: Account 303, Intangible Plant Miscellaneous:
CUSTOMER SERVICE SYSTEM (CSS)
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing Customer Service System (CSS)	PTD	\$102,918	\$46,256	\$20,273	\$36,389
Adjusted Customer Service System (CSS)	DIST	\$102,918	\$ -	\$ -	\$102,918

4.2.3. Account 303, Intangible Plant Miscellaneous: *FRANCHISE TAX SYSTEM*

Statement of Issue:

What is the correct functionalization of Account 303 – 3032030: FRANCHISE TAX SYSTEM?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC’s response to BPA Data Request 33 filed January 8, 2009, PAC stated that Asset 3032030 takes revenue and volumetric data from the CSS and SAP systems to compute and report taxes. PAC stated that because both the CSS and SAP systems are functionalized using the PTD ratio, this asset should also be functionalized using the PTD ratio.

In PAC’s Issue List Response to BPA Issue 3, PAC reversed its stance and states “BPA believes that since franchise taxes are not exchangeable and functionalized to Distribution, it seems that the software used to track the franchise taxes should not be exchangeable. The franchise tax system should, therefore, be functionalized to Distribution.”

Section 4.8.2 of the 2008 ASCM precludes the exchange of franchise taxes and therefore they should be functionalized to Distribution.

Parties' Positions:

PAC and BPA staff agree that franchise taxes are not exchangeable and software used to track franchise taxes should not be exchangeable. PAC and BPA staff therefore support the functionalization of the franchise tax system to Distribution/Other.

Analysis of Positions:

This issue is similar to the issue discussed in Section 4.2.1 above. As noted above, Section VIII.B, Table 1 of the 2008 ASCM provides that functionalization of Account 303 is Direct Analysis with a default to Distribution. *See* 18 C.F.R. § 301.9(a), Table 1. When utilities perform a direct analysis on an Account, they must submit sufficient documentation so that BPA can determine if the proposed functionalization is reasonable. *See* 2008 ASCM, Section VIII.A.2; 18 C.F.R. § 301.9(c)(2). Failure to submit the necessary documentation will “result in the entire account being functionalized to Distribution/Other . . . as appropriate.” *Id.*

In addition, the 2008 ASCM provides 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.*

2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2) (emphasis added); *see also* 2008 ASCM ROD, at 29.

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. *See* Section 6.1.1 of this Report. Section 4.8.2 of the 2008 ASCM precludes the exchange of franchise taxes and therefore the account should be functionalized to Distribution.

PAC agrees that because franchise taxes are not exchangeable and are functionalized to Distribution, the software used to track the franchise taxes should not be exchangeable. The franchise tax system should, therefore, be functionalized to Distribution.

Decision:

Account 303 – 3032030: FRANCHISE TAX SYSTEM will be functionalized to Distribution/Other.

**Table 4.2.3: Account 303, Intangible Plant Miscellaneous:
FRANCHISE TAX SYSTEM
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing Franchise Tax System	PTD	\$417	\$187	\$82	\$ 147
Adjusted Franchise Tax System	DIST	\$417	\$ -	\$ -	\$417

4.2.4. Account 303, Intangible Plant Miscellaneous: *Employee Performance & Salary System*

Statement of Issue:

What is the correct functionalization of Account 303 – 3032290 Employee Performance & Salary System and should the functionalization of a software system follow the functionalizations of the operations it supports?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC’s response to BPA Data Request 33 filed January 8, 2009, PAC stated that Asset 3032290 is the software that allows employees to enter their annual goals and development plans. PAC’s original filing functionalized this account using the PTD ratio. PAC now supports functionalization using the Labor ratio. (*See* PAC’s Issue List Response to BPA, Issue 4.)

Parties’ Positions:

PAC supports functionalization of the Employee Performance & Salary System using the Labor ratio.

BPA staff supports functionalization of Employee Performance & Salary System using the Labor ratio.

Analysis of Positions:

BPA believes 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. See Section 6.1.1 of this Report.

The Employee Performance & Salary System supports the achievement of employee/laborers' annual goals and development plans.

BPA and PAC support functionalization using the Labor ratio rather than the PTD ratio used in the Company's original filing.

Decision:

Account 303 – 3032290 Employee Performance & Salary System will be functionalized using the Labor ratio.

**Table 4.2.4: Account 303, Intangible Plant Miscellaneous:
Employee Performance & Salary System
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
Employee Performance and Salary System	PTD	\$536	\$241	\$106	\$190
Adjusted Employee performance & salary system	LABOR	\$536	\$245	\$47	\$245

4.2.5. Account 303, Intangible Plant Miscellaneous: *Electronic Tagging Outage Manage System*

Statement of Issue:

What is the correct functionalization of Account 303 – 3032320 Electronic Tagging Outage Manage System?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. See 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis.

Id. Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC stated this asset develops NERC-mandated information for the tracking of its energy transactions between power marketing and transmission companies. PAC claimed this asset supports the Transmission and Generation functions of the Company and should be allocated using the PT ratio. (*See* PAC's Issue List Response to BPA, Issue 12.) PAC believed that PT was not an "allowable" functionalization, and therefore the Company functionalized it using the PTD ratio. (*See* BPA Data Request 33 filed January 8, 2009.)

Direct Analysis does not preclude the direct functionalization of an account by any means as long there is a clear description and justification for the functionalization.

Parties' Positions:

PAC proposes that the foregoing subaccount of Account 303 should be functionalized using the PT ratio and proposes that the ratio should be plant-based.

BPA staff supports the use of a PT ratio as long the ratio is supported by Direct Analysis.

Analysis of Positions:

BPA believes 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. *See* Section 6.1.1 of this Report.

Direct Analysis does not preclude the direct functionalization of an account by any means as long there is a clear description and justification for the functionalization.

The above-noted asset develops NERC-mandated information for the tracking of PAC's energy transactions between power marketing and transmission companies. It supports the Transmission and Generation functions of the Company.

PAC proposes that this specific subaccount of Account 303 should be functionalized using the PT ratio and proposes that the ratio should be plant-based.

BPA supports the change of the functionalization of the subaccount to the PT ratio based on plant.

Decision:

Account 303 – 3032320 Electronic Tagging Outage Manage System will be functionalized by the PT ratio based on plant.

**Table 4.2.5: Account 303, Intangible Plant Miscellaneous:
Electronic Tagging Outage Manage System
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing Electronic Tagging Outage Manage System	PTD	\$2,070	\$930	\$408	\$732
Adjusted Electronic Tagging Outage Manage System	PT	\$2,070	\$1,698	\$372	\$ -

4.2.6. Account 303, Intangible Plant Miscellaneous: Hr- Benefits Open Enrollment Online

Statement of Issue:

What is the correct functionalization of Account 303 – 3032380 Hr- Benefits Open Enrollment Online?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC’s Response to BPA Data Request 33 filed January 8, 2009, PAC stated that asset 3032380 is the software system that allows employees to select among medical, dental and vision plans. PAC’s original filing functionalized this account using the PTD ratio. PAC now supports functionalization using the Labor ratio. (*See* PAC’s Issue List Response to BPA Issue 6.)

Parties’ Positions:

PAC supports functionalization of Asset 3032380 Hr- Benefits Open Enrollment Online using the Labor ratio.

BPA staff supports functionalization of Asset 3032380 Hr- Benefits Open Enrollment Online using the Labor ratio.

Analysis of Positions:

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. See Section 6.1.1 of this Report.

A software system that allows employees select among medical, dental and vision plans supports the employee/laborers' selections of their medical plans.

The costs of medical, dental and vision plans are functionalized to Labor. Software that supports such plans should be functionalized in the same manner.

BPA and PAC support the functionalization of Asset 3032380 Hr- Benefits Open Enrollment Online using the Labor ratio.

Decision:

Account 303 – 3032380 Hr- Benefits Open Enrollment Online will be functionalized using the Labor ratio.

**Table 4.2.6: Account 303, Intangible Plant Miscellaneous:
Hr- Benefits Open Enrollment Online
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
HR- Benefits Open Enrollment Online	PTD	\$343	\$154	\$67	\$121
Adjusted					
HR- Benefits Open Enrollment Online	LABOR	\$343	\$156	\$30	\$156

4.2.7. Account 303, Intangible Plant Miscellaneous: *Fieldnet Pro Meter Reading Syst - Hrp Rep*

Statement of Issue:

What is the correct functionalization of the Fieldnet Pro Meter Reading Syst -Hrp Rep?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC's original filing functionalized this Account using the PTD ratio. This software system is used to manage meter reading for retail customers. In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC supports functionalization to Distribution/Other.

Parties' Positions:

PAC supports functionalization of *Fieldnet Pro Meter Reading Syst -Hrp Rep* to Distribution/Other.

BPA staff supports functionalization of *Fieldnet Pro Meter Reading Syst -Hrp Rep* to Distribution/Other.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

In this case, Meter Data Interface Software is used to manage meter reading for retail customers. The cited software system supports PAC's retail-related activities associated with Account 902, which is functionalized to Distribution/Other. As such, the costs associated with the Meter Data Interface Software should be functionalized to Distribution/Other as well.

BPA and PAC support the functionalization of *Fieldnet Pro Meter Reading Syst -Hrp Rep* to Distribution/Other.

Decision:

Account 303, Intangible Plant Miscellaneous: Fieldnet Pro Meter Reading Syst -Hrp Rep will be functionalized to Distribution/Other.

**Table 4.2.7: Account 303, Intangible Plant Miscellaneous:
Fieldnet Pro Meter Reading Syst -Hrp Rep
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
Fieldnet Pro Meter Reading Syst -Hrp Rep	PTD	\$2,908	\$1,307	\$ 573	\$ 1,028
Adjusted					
Fieldnet Pro Meter Reading Syst -Hrp Rep	DIST	\$ 2,908	\$ -	\$ -	\$ 2,908

4.2.8. Account 303, Intangible Plant Miscellaneous: *Mid Office Improvement Project*

Statement of Issue:

What is the correct functionalization of the Account 303 – 3032450 Mid Office Improvement Project?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC’s response to BPA Data Request 33 filed January 8, 2009, PAC stated that Asset 3032450 Mid Office Improvement Project is a software program that supports the Company’s Mid-Office group, part of the Commercial and Trading organization, and thus was functionalized to Production.

PAC stated that “the *Mid Office Improvement Project* software programs are programs that support and improve the Company’s Mid-Office group, which is a part of the Commercial and Trading organization. All costs associated with this organization are booked to FERC Account 557, which is functionalized to PROD. PAC agrees with the proposal raised by BPA in the Discussion sections of Issues 2, 3 and 4 that the functionalization of a software system should follow the functionalization of the operation it supports. Thus, consistent with this approach, this account should be functionalized to PROD.” (*See* PAC’s Issue List Response to BPA, Issue 8.)

Parties' Positions:

PAC contends that *Mid Office Improvement Project* software programs are programs that support and improve the Company's Mid-Office group, which is a part of the Commercial and Trading organization. All costs associated with this organization are booked to FERC Account 557, which is functionalized to Production.

BPA staff believes the functionalization of a software system should follow the functionalization of the operation it supports and therefore agrees that the cited software should be functionalized to Production.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

PAC contends the cited software programs are programs that support and improve the Company's Mid-Office group, which is a part of the Commercial and Trading organization. All costs associated with this organization are booked to FERC Account 557, which is functionalized to Production. The functionalization of a software system should follow the functionalization of the operation it supports. Thus, consistent with this approach, the Mid-Office Improvement Project should be functionalized to Production.

BPA supports functionalization to Production.

Decision:

Account 303 – 3032450 Mid Office Improvement Project will be functionalized to Production.

There is no change in the ASC.

4.2.9. Account 303, Intangible Plant Miscellaneous: *Outage Call Handling Integration*

Statement of Issue:

What is the correct functionalization of Account 303 – 3032480 - Outage Call Handling Integration?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC's response to BPA Data Request 33 filed January 8, 2009, stated that the Outage Call Handling Integration is a software system with a primary purpose of assisting in the management and response to outages of retail customers.

PAC's original filing functionalized this account using PTD. In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC stated that the Outage Call Handling Integration Software should more appropriately be functionalized to Distribution/Other rather than using the PTD ratio.

Parties' Positions:

PAC believes Outage Call Handling Integration Software should be functionalized to Distribution/Other.

BPA staff agrees that Outage Call Handling Integration Software should be functionalized to Distribution/Other.

Analysis of Positions:

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. See Section 6.1.1 of this Report.

BPA and PAC agree that the cited software supports the retail side of PAC's business.

Decision:

Account 303 – 3032480 - Outage Call Handling Integration will be functionalized to Distribution/Other.

**Table 4.2.9: Account 303, Intangible Plant Miscellaneous:
Outage Call Handling Integration
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
Outage Call Handling Integration	PTD	\$ 1,981	\$ 890	\$ 390	\$ 700
Adjusted Outage Call Handling Integration	DIST	\$ 1,981	\$ -	\$ -	\$ 1,981

4.2.10. Account 303, Intangible Plant Miscellaneous: *On Line Employee Expense Express*

Statement of Issue:

What is the correct functionalization of Account 303 – 3032500 - On Line Employee Expense Express?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC states that the On Line Employee Expense Express is a software system with a primary purpose of assisting employees/laborers in the management of their expenses.

PAC's original filing functionalized this account using the PTD ratio. In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC now supports functionalization by the Labor ratio. (*See* PAC's Issue List Response to BPA, Issue 10.)

Parties' Positions:

PAC supports functionalization of On Line Employee Expense Express software using the Labor ratio.

BPA staff supports functionalization of On Line Employee Expense Express software using the Labor ratio.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

BPA and PAC agree that the software supports employees/laborers in conducting their work and that the Labor ratio best reflects its functional nature.

Decision:

Account 303 – 3032500 - On Line Employee Expense Express will be functionalized using the Labor ratio.

**Table 4.2.10: Account 303, Intangible Plant Miscellaneous:
On Line Employee Expense Express
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
On Line Employee Expense Express	PTD	\$765	\$ 344	\$151	\$ 270
Adjusted					
On Line Employee Expense Express	LABOR	\$765	\$ 349	\$ 67	\$ 349

4.2.11. Account 303, Intangible Plant Miscellaneous: SB1149 - Accommodate CSS and MDM to SB11

Statement of Issue:

What is the correct functionalization of the Account 303 – 3032580 - SB1149 - Accommodate CSS and MDM to SB11?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

In PAC’s response to BPA Data Request 33 filed January 8, 2009, PAC stated that Asset 3032580 is the software modification that allowed the Company’s customers in Oregon to receive energy service from an energy supplier as required by SB 1149. The customer continues to receive delivery service from the Company and thus this asset was functionalized to Production.

SB1149 - Accommodate CSS and MDM to SB11 is the software used by the Company to buy or sell on the market in order to balance its portfolio for customers who receive energy service from an energy supplier as required by SB 1149. (*See* PAC’s Issue List Response to BPA, Issue 12.)

Parties’ Positions:

PAC contends the cited software is used by the Company to buy or sell on the market in order to balance its portfolio for customers and thus this asset should be functionalized to Production.

BPA staff agrees that if the software used by the Company to buy or sell on the market in order to balance its portfolio for customers, the asset is properly functionalized to Production.

Analysis of Positions:

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. See Section 6.1.1 of this Report.

SB 1149 was legislation that allowed the Company’s customers to choose an energy service provider. Under Direct Access, if a customer leaves PAC to receive service from an Energy Service Provider, or returns to PAC from an Energy Service Provider, the Company will have to buy or sell on the market in order to balance its portfolio. The costs of purchasing and selling wholesale energy are functionalized to Production, and BPA has proposed that software supporting these areas should have the same functionalization. This software modification will allow the Company to bill the customer no matter his or her choice of Energy Service Provider. Accordingly, this asset should be functionalized to Production. (*Id.*)

BPA and PAC agree that the cited software is used by the Company to buy or sell on the market in order to balance its portfolio for customers and, thus, this asset is properly functionalized to Production.

Decision:

Account 303 – 3032580 - SB1149 - Accommodate CSS and MDM to SB11 will be functionalized to Production.

**Table 4.2.11: Account 303, Intangible Plant Miscellaneous:
SB1149 - Accommodate CSS and MDM to SB11
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
SB1149 - Accommodate CSS and MDM to SB11	PROD	\$126	\$126	\$ -	\$ -
Adjusted					
SB1149 - Accommodate CSS and MDM to SB11	PROD	\$126	\$126	\$ -	\$ -

4.2.12. Account 303, Intangible Plant Miscellaneous: School - Substation/Circuit History of Operations

Statement of Issue:

What is the correct functionalization of the Account 303 – 3032590 - School - Substation/Circuit History of Operations?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC's original filing functionalized this account using PTD.

In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC stated that School - Substation/Circuit History of Operations is a software system that provides load information for substations and circuits.

PAC now supports a functionalization using the TD ratio rather than the PTD ratio. (*See* PAC's Issue List Response to BPA, Issue 13.)

Parties' Positions:

PAC supports functionalizing the School - Substation/Circuit History of Operations software using the TD ratio rather than the PTD ratio.

BPA staff supports functionalization using the TD ratio.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

PAC stated the School - Substation/Circuit History of Operations software's primary purpose is to provide load information for substations and circuits and is therefore functionally related to transmission and distribution.

BPA and PAC support the functionalization of the cited software using the TD ratio.

Decision:

Account 303 – 3032590 - School - Substation/Circuit History of Operations will be functionalized to Transmission and Distribution (TD).

**Table 4.2.12: Account 303, Intangible Plant Miscellaneous:
School - Substation/Circuit History of Operations
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
School - Substation/Circuit History of O	PTD	\$2,089	\$939	\$412	\$739
Adjusted					
School - Substation/Circuit History of O	TD	\$2,089	\$ -	\$747	\$1,342

4.2.13. Account 303, Intangible Plant Miscellaneous: *Mapping And Connectivity Enabler Software*

Statement of Issue:

What is the correct functionalization of Account 303 – 3032720 - Mapping and Connectivity Enabler Software?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC’s original filing functionalized this account using the PTD ratio. In response to ASC-09-PA/PacifiCorp Data Request 33, PAC stated that Asset 3032720 should more appropriately be functionalized to Distribution/Other rather than using the PTD ratio.

Parties’ Positions:

PAC supports functionalization of the Mapping and Connectivity Enabler software to Distribution/Other.

BPA staff supports functionalization of the Mapping and Connectivity Enabler software to Distribution/Other.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

BPA and PAC agree that the software supports the mapping and connectivity at the retail/distribution function and that Distribution best reflects its functional nature.

Decision:

Account 303 – 3032720 - Mapping and Connectivity Enabler Software will be functionalized to Distribution/Other.

**Table 4.2.13: Account 303, Intangible Plant Miscellaneous:
Mapping And Connectivity Enabler Software
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
Mace - Mapping & Connectivity Enabler	PTD	\$1,188	\$534	\$234	\$420
Adjusted					
Mace - Mapping & Connectivity Enabler	DIST	\$1,188	\$ -	\$ -	\$1,188

4.2.14. Account 303, Intangible Plant Miscellaneous: *Computer Based Training (CBT)*

Statement of Issue:

What is the correct functionalization of Account 303 – 3032810 - Computer Based Training (CBT)?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. See 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC’s original filing functionalized this account using the PTD ratio.

In PAC’s response to BPA Data Request 33 filed January 8, 2009, PAC stated that Computer Based Training (CBT) is a computer-based training system at the Company’s production plants. The Company now supports a functionalization of Computer Based Training (CBT) software to Production rather than the PTD ratio as more appropriate for this asset

Parties' Positions:

PAC supports a functionalization to Production rather than the PTD ratio.

BPA staff supports functionalization to Production rather than the PTD ratio.

Analysis of Positions:

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. See Section 6.1.1 of this Report.

BPA and PAC agree that the software supports a training system at the Company's production plants and that Production best reflects its functional nature.

Decision:

Account 303 – 3032810 - Computer Based Training (CBT) will be functionalized to Production.

**Table 4.2.14: Account 303, Intangible Plant Miscellaneous:
Computer Based Training (CBT)
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing Computer Based Training (CBT)	PTD	\$1,128	\$507	\$222	\$399
Adjusted Computer Based Training (CBT)	PROD	\$1,128	\$1,128	\$ -	\$ -

4.2.15. Account 303, Intangible Plant Miscellaneous: RCDA Regulation Discovery Tool

Statement of Issue:

What is the correct functionalization of the Account 303 – 3033020 - RCDA Regulation Discovery Tool?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. See 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the

functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC's original filing functionalized this account using the PTD ratio.

In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC stated that RCDA Regulation Discovery Tool is the Regulation Discovery software that supports the discovery process in all Federal and State regulatory proceedings. PAC claimed it is appropriately functionalized using the PTD ratio because regulation embraces all assets of the Company.

PAC states that "BPA's statement 'Under the 2008 ASCM, Regulatory costs not exchangeable' is incorrect. One specific expense – Regulatory Commission Expenses (Account 928) – is not exchangeable, but expenses associated with discovery are booked to Account 920, not to Account 928. Account 920 is functionalized to labor, and therefore the software supporting the expenses in this account should be similarly functionalized to labor." (See PAC's Issue List Response to BPA, Issue 16.)

Parties' Positions:

PAC supports functionalization of the account using the Labor ratio.

BPA staff supports functionalization of the account using the Labor ratio.

Analysis of Positions:

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. See Section 6.1.1 of this Report.

PAC supports functionalization of the account using the Labor ratio.

Section 4.3.13 of the 2008 ASCM makes clear that regulatory commission expenses are not exchangeable. The software used to support the discovery process in all Federal and State regulatory proceedings should therefore not be exchangeable. BPA agrees, however, that the software costs should follow the labor oversight costs and therefore BPA agrees that the software should be functionalized using the Labor ratio.

BPA and PAC agree that the RCDA Regulation Discovery Tool software should be functionalized using the Labor ratio.

Decision:

Account 303 – 3033020 - RCDA Regulation Discovery Tool will be functionalized using the Labor ratio.

**Table 4.2.15: Account 303, Intangible Plant Miscellaneous:
RCDA Regulation Discovery Tool
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing RCDA Regulation Discovery Tool	PTD	\$667	\$300	\$131	\$236
Adjusted RCDA Regulation Discovery Tool	LABOR	\$667	\$305	\$58	\$305

4.2.16. Account 303, Intangible Plant Miscellaneous: CTHAS-C&T Hedge Actg/Actg Standards

Statement of Issue:

What is the correct functionalization of the Account 303 – 3033110 - CTHAS-C&T Hedge Actg/Actg Standards?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC’s original filing functionalized this account to Production.

In PAC’s response to BPA Data Request 33 filed January 8, 2009, PAC stated that the CTHAS-C&T Hedge Actg/Actg Standards software is the software interface between the Commercial and Trading Hedging Accounting System and the Commercial and Trading Accounting Standards Data Base and is thus functionalized to Production.

PAC states in its Response to BPA Issue List, Issue 17, however, that the cost of software used to support hedging activity should be functionalized to Distribution. (*See* PAC’s Issue List Response to BPA, Issue 12.)

Under Section 4.3.3 of the 2008 ASCM, derivatives are not exchangeable and are therefore functionalized to Distribution. Therefore, the software that supports the function should not be exchangeable.

Parties' Positions:

PAC states that the cost of software used to support hedging activity should be functionalized to Distribution/Other.

BPA staff agrees that the software used to support hedging activity should be functionalized to Distribution/Other.

Analysis of Positions:

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. See Section 6.1.1 of this Report.

PAC and BPA agree that the software used to support hedging activity should be functionalized to Distribution/Other.

Decision:

Account 303 – 3033110 - CTHAS-C&T Hedge Actg/Actg Standards will be functionalized to Distribution/Other.

**Table 4.2.16: Account 303, Intangible Plant Miscellaneous:
CTHAS-C&T Hedge Actg/Actg Standards
(\$000s)**

Account Description		Total	Prod	Tran	Dist
As filed					
CTHAS-C&T Hedge Actg/Actg Standards Inte	PROD	\$279	\$279	\$ -	\$ -
Adjusted					
CTHAS-C&T Hedge Actg/Actg Standards Inte	DIST	\$279	\$ -	\$ -	\$ 279

4.2.17. Account 303, Intangible Plant Miscellaneous: *MISC – Miscellaneous*

Statement of Issue:

What is the correct functionalization of the Account 303 – 3034900 MISC – Miscellaneous?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC's original filing functionalized this account using the PTD ratio.

PAC states that "Asset 3034900 includes miscellaneous small software packages with a value of less than \$1 million. The asset is either directly assigned to a state (functionalized distribution) or allocated between the states on a SE, SG or SO system allocator (functionalized PTD). Attachment Issue 18 lists all additions to this asset in 2006 by Cost Center. The attachment demonstrates that the software packages were spread throughout the Company, both at the two office complexes, the Company's operation center and steam production plants. The software is used throughout the Company and supports all functions, a functionalization of PTD is appropriate." (*See* PAC's Issue List Response to BPA, Issue 18.)

In PAC's response to BPA Data Request 33 filed January 8, 2009, PAC stated that Asset 3034900 includes miscellaneous small software packages not specifically identified in SAP. Those assigned to a specific state are functionalized Distribution, those allocated system-wide are functionalized using the PTD ratio although functionalization using the Labor ratio may also be appropriate.

Parties' Positions:

PAC contends that where miscellaneous software costs are not directly assigned to Distribution and are based upon the allocation between the states on a SE, SG or SO system allocator, it is reasonable to functionalize the miscellaneous software costs using the PTD ratio.

BPA staff believes the cited software should be functionalized using the Labor ratio.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

PAC states that given the description of the miscellaneous software costs not directly assigned to Distribution and the basis of the allocation between the states on a SE, SG or SO system allocator, it is reasonable to functionalize the miscellaneous software costs using the PTD ratio.

PAC also stated that functionalizing miscellaneous software using the Labor ratio may also be appropriate.

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 or the cost of the software is less than 1% of the total cost in Account 303 – Software, the software should be functionalized using the Labor ratio. See Section 6.1.1 of this Report.

Decision:

Account 303 – 3034900 MISC – Miscellaneous will be functionalized using the Labor ratio.

**Table 4.2.17: Account 303, Intangible Plant Miscellaneous:
MISC – Miscellaneous
(\$000s)**

Account Description		Total	Prod	Tran	Dist
As filed					
MISC - Miscellaneous	PTD	\$268	\$120	\$53	\$95
MISC - Miscellaneous	PTD	\$15	\$7	\$3	\$5
MISC - Miscellaneous	PTD	\$1,067	\$480	\$210	\$377
MISC - Miscellaneous	PTD	\$23,898	\$10,741	\$4,708	\$8,450
Total		\$25,249	\$11,348	\$4,974	\$8,927
Adjusted					
MISC - Miscellaneous	LABOR	\$268	\$122	\$23	\$122
MISC - Miscellaneous	LABOR	\$15	\$7	\$1	\$7
MISC - Miscellaneous	LABOR	\$1,067	\$487	\$93	\$487
MISC - Miscellaneous	LABOR	\$23,898	\$10,906	\$2,087	\$10,905
Total		\$25,249	\$11,523	\$2,205	\$11,521

4.2.18. Account 303, Intangible Plant Miscellaneous: *Miscellaneous software*

Statement of Issue:

What is the correct functionalization of the Account 303 – Miscellaneous Software?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. See 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC’s original filing functionalized this Account using the PTD ratio.

Miscellaneous software is defined as software that does not easily fit into other categories; such as Customer Information System (CIS), Billing, Metering, Employee Information, Facilities Management, etc. These are software systems that generally make employees more efficient at their jobs. For example, MICROSOFT OFFICE XP LICENSES is a license for Microsoft office suites that are on employees' computers. *See* Section 6.1.1 of this Report.

PAC's explanation of the items was not sufficiently clear to allow an understanding of the software's purposes.

Parties' Positions:

PAC supports functionalization for most of the software that BPA has classified as Miscellaneous using the PTD ratio.

BPA staff believes Miscellaneous software should be functionalized using the Labor ratio. Outage Reporting System software will be functionalized to Distribution/Other.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

PAC's explanation of the items was not sufficiently clear to allow an understanding of the software's purposes and therefore was inadequate to justify functionalization using the PTD ratio.

The cited software appears to be either used by a large number of PAC employees or supports PAC's general IT infrastructure and would more accurately be functionalized to the operation it supports or replaces, which is PAC's employees. Therefore, the Labor ratio more accurately reflects the appropriate functionalization.

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 or the cost of the software is less than 1% of the total cost in Account 303 – Software, the software should be functionalized using the Labor ratio.

The software BPA has classified as Miscellaneous is more accurately functionalized to the operation it supports, which is PAC's employees. Therefore, the Labor ratio more accurately reflects the appropriate functionalization. The Outage Reporting System software is fundamentally a retail issue and therefore should be functionalized to Distribution/Other.

Decision:

Account 303 – Miscellaneous Software will be functionalized using the Labor ratio. Outage Reporting System software will be functionalized to Distribution/Other.

**Table 4.2.18: Account 303, Intangible Plant Miscellaneous:
Miscellaneous Software
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
WAN/LAN Sftwr For TCP/VAX Netwk	PTD	\$181	\$81	\$36	\$64
Endeavor Program Library	PTD	\$748	\$336	\$147	\$264
Outage Reporting System	PTD	\$3,498	\$1,572	\$689	\$1,237
RECRUITSOFT Applicant Tracking Sys Inter	PTD	\$237	\$107	\$47	\$84
INTELLISYNC Anywhere	PTD	\$597	\$268	\$118	\$211
KPI - Key Performance Indicator Dashboar	PTD	\$998	\$448	\$197	\$353
Financial Forecast Integration	PTD	\$394	\$177	\$78	\$139
Office XP Software	PTD	\$1,441	\$648	\$284	\$510
Power Tax	PTD	\$792	\$356	\$156	\$280
Intranet Search Engine	PTD	\$498	\$224	\$98	\$176
Utility International Forecasting Model	PTD	\$1,662	\$747	\$327	\$588
2003 CCO OPEX Machine Software	PTD	\$538	\$242	\$106	\$190
VCPRO - Xerox Cust Stmt Frmtr Enhance -	PTD	\$2,179	\$979	\$429	\$770
Version Control System	PTD	\$326	\$147	\$64	\$115
VITAL - Vital Solutions	PTD	\$112	\$50	\$22	\$40
WEB - Web Infrastructure and Application	PTD	\$4,451	\$2,000	\$877	\$1,574
Visio Pro	PTD	\$417	\$187	\$82	\$147
Total		\$19,069	\$8,570	\$3,756	\$6,742
Adjusted					
WAN/LAN Sftwr For TCP/VAX Netwk	LABOR	\$181	\$83	\$16	\$82
Endeavor Program Library	LABOR	\$748	\$341	\$65	\$341
Outage Reporting System	DIST	\$3,498	\$-	\$-	\$3,498
RECRUITSOFT Applicant Tracking Sys Inter	LABOR	\$237	\$108	\$21	\$108
INTELLISYNC Anywhere	LABOR	\$597	\$272	\$52	\$272
KPI - Key Performance Indicator Dashboar	LABOR	\$998	\$455	\$87	\$455
Financial Forecast Integration	LABOR	\$394	\$180	\$34	\$180
Office XP Software	LABOR	\$1,441	\$658	\$126	\$658
Power Tax	LABOR	\$792	\$362	\$69	\$361

Account Description		Total	Prod	Tran	Dist
Intranet Search Engine	LABOR	\$498	\$227	\$43	\$227
Utility International Forecasting Model	LABOR	\$1,662	\$759	\$145	\$759
2003 CCO OPEX Machine Software	LABOR	\$538	\$246	\$47	\$246
VCPRO - Xerox Cust Stmt Frmtr Enhance -	LABOR	\$2,179	\$994	\$190	\$994
Version Control System	LABOR	\$326	\$149	\$28	\$149
VITAL - Vital Solutions	LABOR	\$112	\$51	\$10	\$51
WEB - Web Infrastructure and Application	LABOR	\$4,451	\$2,031	\$389	\$2,031
Visio Pro	LABOR	\$417	\$190	\$36	\$190
Total		\$19,069	\$7,106	\$1,360	\$10,603

4.2.19. Account 303, Intangible Plant Miscellaneous: *Enterprise Resource Planning Software*

Statement of Issue:

What is the correct functionalization of Account 303 – Enterprise Resource Planning Software?

Statement of Facts:

Section VIII of the 2008 ASCM requires a utility to functionalize its Accounts in accordance with Table 1 of the ASCM. *See* 18 C.F.R. § 301.9(a). Table 1 provides two alternatives for the functionalization of costs items in Account 303. First, the utility may perform a Direct Analysis. *Id.* Second, if the utility does not perform such analysis, the default functionalization is Distribution/Other. *Id.*

PAC's original filing functionalized this account using the PTD ratio.

Enterprise Resource Planning (ERP) Systems 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. *See* Section 6.1.1 of this Report.

In the ASC Draft Report, BPA functionalized ERP systems using the Labor ratio. PAC did not object to this functionalization in its comments on the ASC Draft Report.

PAC's explanation of the items was not sufficiently clear to allow an understanding of the software's purposes.

PAC believes Enterprise Resource Planning (ERP) Systems should be functionalized using the PTD ratio. (*See* BPA Data Request 12 filed January 8, 2009.)

Parties' Positions:

PAC believes Enterprise Resource Planning (ERP) Systems should be functionalized using the PTD ratio.

BPA staff believes Enterprise Resource Planning (ERP) Systems should be functionalized using the Labor ratio.

Analysis of Positions:

This issue is similar to the issue discussed in Section 4.2.2 above. As noted above, Section VIII.B, Table 1 of the 2008 ASCM provides that functionalization of Account 303 is Direct Analysis with a default to Distribution. *See* 18 C.F.R. § 301.9(a), Table 1. When utilities perform a Direct Analysis on an Account, they must submit sufficient documentation so that BPA can determine if the proposed functionalization is reasonable. *See* 2008 ASCM, Section VIII.A.2; 18 C.F.R. § 301.9(c)(2). Failure to submit the necessary documentation will "result in the entire account being functionalized to Distribution/Other . . . as appropriate." *Id.*

In addition, the 2008 ASCM provides 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.*

2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2) (emphasis added); *see also* 2008 ASCM ROD, at 29.

BPA's software cost functionalization framework functionalizes costs related to Enterprise Resource Planning (ERP) Systems using the Labor ratio because the primary benefit of ERP Systems is increased productivity of the utility's work force. ERP Systems are not installed to reduce line losses or increase heat rates of power generation equipment. Although utilities may experience an increase in the productivity of assets, the cause is a result of the more accurate, timely and higher quality information provided to labor, thus resulting in a more efficient use of utility assets.

No party raised any objections in comments on the ASC Draft Report to BPA's decision to functionalize ERP Systems using the Labor ratio.

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"³ or "supports all areas of the company."⁴ 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. Although 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 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 PAC's Response to BPA Data Request ASC-09-PA-12, PAC stated that:

The remaining \$462 million consists of various computer hardware and software assets. Two assets dwarf the remaining assets – the Company's accounting

³ See, for example, Data Responses ASC-09 PA-BPA-12 and ASC-09-PS-BPA-6

⁴ 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.

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 will 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.

BPA’s software cost functionalization framework functionalizes cost related to Enterprise Resource Planning ERP systems using the Labor ratio because the primary benefit of ERP systems is increased productivity of the utility’s work force. ERP systems are not installed to reduce line losses or increase heat rates of power generation equipment. While utilities may experience an increase in the productivity of assets, the cause is a result of the more accurate, timely and higher quality information provided to labor, thus resulting in a more efficient use of utility assets.

Decision:

Enterprise Resource Planning Software will be functionalized using the Labor ratio.

**Table 4.2.19: Account 303, Intangible Plant Miscellaneous:
Enterprise Resource Planning Software
(\$000s)**

Account Description		Total	Prod	Tran	Dist
Base Filing					
Record Center Management Software	PTD	\$291	\$131	\$57	\$103
DESK - Desktop Server Software ARE 4.1	PTD	\$269	\$121	\$53	\$95
Helpdesk Mainframe Software - Vantive	PTD	\$446	\$200	\$88	\$158
STROBE - STROBE Performance Management S	PTD	\$97	\$44	\$19	\$34
SAP - SAP	PTD	\$158,995	\$71,459	\$31,319	\$56,217
Compuware File Aid Tool Software	PTD	\$123	\$55	\$24	\$43
Enterprise Data Wrhse - BI RPTG Tool	PTD	\$1,660	\$746	\$327	\$587
Disaster Recovery Project	PTD	\$1,486	\$668	\$293	\$525
DWHS - Data Warehouse	PTD	\$1,158	\$520	\$228	\$409
Enterprise Data Warehouse	PTD	\$4,513	\$2,028	\$889	\$1,596

Account Description		Total	Prod	Tran	Dist
EMC DASD Software	PTD	\$406	\$183	\$80	\$144
Common Workstation & Login APP	PTD	\$1,633	\$734	\$322	\$578
Close Down IMS and Move To New Platform	PTD	\$514	\$231	\$101	\$182
Novell Licenses	PTD	\$258	\$116	\$51	\$91
Quest Database Mgmt Tools	PTD	\$525	\$236	\$103	\$186
Sterling Software	PTD	\$973	\$437	\$192	\$344
Tibco Software	PTD	\$3,660	\$1,645	\$721	\$1,294
P8DM - FILENET P8	PTD	\$2,687	\$1,208	\$529	\$950
Oracle 8i Database	PTD	\$1,340	\$602	\$264	\$474
Total		\$181,034	\$81,364	\$35,661	\$64,009
Adjusted					
Record Center Management Software	LABOR	\$291	\$133	\$25	\$133
DESK - Desktop Server Software ARE 4.1	LABOR	\$269	\$123	\$23	\$123
Helpdesk Mainframe Software - Vantive	LABOR	\$446	\$204	\$39	\$203
STROBE - STROBE					
Performance Management S	LABOR	\$97	\$44	\$8	\$44
SAP - SAP	LABOR	\$158,995	\$72,561	\$13,884	\$72,550
Compuware File Aid Tool Software	LABOR	\$123	\$56	\$11	\$56
Enterprise Data Wrhse - BI RPTG Tool	LABOR	\$1,660	\$758	\$145	\$758
Disaster Recovery Project	LABOR	\$1,486	\$678	\$130	\$678
DWHS - Data Warehouse	LABOR	\$1,158	\$529	\$101	\$528
Enterprise Data Warehouse	LABOR	\$4,513	\$2,060	\$394	\$2,059
EMC DASD Software	LABOR	\$406	\$185	\$35	\$185
Common Workstation and Login App	LABOR	\$1,633	\$745	\$143	\$745
Close Down IMS and Move To New Platform		\$			
Novell Licenses	LABOR	514	\$235	\$45	\$235
Novell Licenses	LABOR	\$258	\$118	\$23	\$118
Quest Database Mgmt Tools	LABOR	\$525	\$240	\$46	\$240
Sterling Software	LABOR	\$973	\$444	\$85	\$444
Tibco Software	LABOR	\$3,660	\$1,670	\$320	\$1,670
P8DM - FILENET P8	LABOR	\$2,687	\$1,226	\$235	\$1,226
Oracle 8i Database	LABOR	\$1,340	\$612	\$117	\$612
Total		\$181,034	\$82,619	\$15,808	\$82,606

4.2.20. Schedules 1 & 3 - Accounts 182.3, 186, 253, and 254:

Statement of Issue:

What is the correct functionalization of Accounts 182.3, 186, 253, and 254 – Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254) that are not recovered in rate base at the jurisdictional level?

Statement of Facts:

Direct Analysis is the default functionalization of Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254).

PAC uses its latest results of operations to allocate and then functionalize the assets and liabilities (Accounts 182.3, 186, 253, and 254). This is then used to allocate and functionalize the total assets and liabilities (Accounts 182.3, 186, 253, and 254) as reported in the 2006 FERC Form 1. (See PAC's Issue List Response to BPA, Issue 22, and BPA Data Request 16 filed January 8, 2009.)

All line items not included in the latest results of operations (*not recovered in rate base at the jurisdictional level*) were functionalized to Distribution/Other. They were then allocated to the Pacific Northwest based upon the relevant allocation factors. (See PAC's Issue List Response to BPA, Issue 22.)

Parties' Positions:

PAC functionalizes Accounts 182.3, 186, 253, and 254, shown in the FERC Form on a line-by-line basis, using Direct Analysis. All line items not included in the latest results of operations were functionalized to Distribution/Other. They are then allocated to the Pacific Northwest based upon the relevant allocation factors.

It is PAC's position that a regulatory Asset or Liability that is not recovered in rate base should be allocated to Distribution.

BPA staff believes the cited Accounts should be functionalized in accordance with PAC's Direct Analysis.

Analysis of Positions:

A Direct Analysis should be performed on the assets and liabilities shown in utilities' FERC Form 1 data. A Direct Analysis should not exclude any of the subaccounts from the FERC Form 1. All subaccounts, regardless of whether they are in the utility's rate base, should be included.

PAC functionalizes Accounts 182.3, 186, 253, and 254 shown in the FERC Form on a line-by-line basis using Direct Analysis.

Section 4.10.4 of the 2008 ASCM provides that under no conditions can regulatory assets be included in ASC at a level greater than regulatory commissions allow them to be recovered in retail rates.

Decision:

Accounts 182.3, 186, 253, and 254– Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254) will be functionalized based on PAC’s Direct Analysis.

BPA agrees with PAC’s functionalization of Accounts 182.3, 186, 253, and 254 for all line items not included in the latest Results of Operations Report.

4.2.21. Account 182.3 - Other Regulatory Assets: Account 1823040 - Oregon’s Electric Restructuring Law

Statement of Issue:

Whether assets that are not allocated to the PNW region in detail should be allocated to Oregon in the summation calculation - Account 1823040 (Oregon’s Electric Restructuring Law)?

Statement of Facts:

This account encompasses costs related to Oregon’s Electric Restructuring Law.

PAC functionalized Account 1823040 (Oregon’s Electric Restructuring Law) to Production. *See* Appendix 1 filing, Line 825, Regulatory Assets Tab.

BPA pointed out that there seemed to be an inconsistency between how this account is functionalized in the Result of Operations Report and how the costs are allocated to the PNW for ASC purposes. (*See* PAC’s Issue List Response to BPA, Issue 23.)

This Account (line 171) is the compilation of Utility Regulation Transition costs. PAC allocates all of the Transition Assets to “Other”; however, in Line 825 the compilation is allocated to Oregon.

PAC stated that “BPA erroneously describes the account at issue and misunderstands the result of operations report. In the result of operations report, costs are allocated to the State, FERC or Other jurisdictions. If costs are allocated to a State, then such costs are included in the calculation of the revenue requirement for that State. State-specific costs may also be recovered from a State through a supplemental schedule. In that case, those costs will be allocated to Other in the result of operations report to insure that PAC does not recover the costs twice from Oregon ratepayers.” (*See* PAC’s Issue List Response to BPA, Issue 23.)

Additionally, PAC states that “the account at issue, (line 171), is a compilation of Utility Regulation Transition costs only in the state of Oregon. (The first account is called “Oregon Direct Access.” The majority of the other accounts either reference SB 1149, an Oregon law or specific Oregon Rate Schedules). The assets are assigned to “Other” because they are directly

recovered from Oregon ratepayers through supplemental Rate Schedules 291, 292, 293 and 296, not through the base revenue requirement calculation. These are Oregon-specific costs and should be included in the ASC calculation.” (See PAC’s Issue List Response to BPA, Issue 23.)

PAC stated that “Oregon’s Electric Restructuring Law allowed a customer the choice of electricity producer. This asset represents the cost of allowing a customer his choice of electricity producer and is thus functionalized to production.” See PAC’s Issue List Response to BPA, Issues 26 and 12.) The costs associated with Oregon’s Electric Restructuring Law, however, relate to the retail side of the business and do not pertain to the production or transmission of electricity. (See PAC’s Comments on BPA’s ASC Draft Report, at 1.)

Parties’ Positions:

PAC argues that Oregon’s Electric Restructuring Law allows a customer the choice of electricity producer. This asset represents the cost of allowing a customer his choice of electricity producer and is thus functionalized to Production.

PAC contends that BPA’s assertion on page 40 of the ASC Draft Report that “[t]he costs associated with Oregon’s Electric Restructuring Law, however, relate to the retail side of the business and do not pertain to the production or transmission of electricity” is incorrect. As stated in the same paragraph, the “[l]aw allows a customer the choice of electricity producer.” When a customer chooses an electricity producer other than PAC, this frees up the electricity previously used by them to be sold on the short term market and thus directly decreases PAC’s ASC. PAC contends that since the underlying theme throughout the Generic Issue List (Section 6.1) is that similar accounts should receive similar functionalization, the savings associated with Oregon’s Electric Restructuring Law reduce the Production component of PAC’s ASC. Therefore, PAC contends that the costs associated with Oregon’s Electric Restructuring Law should similarly be functionalized to Production. (See PAC’s Comments on BPA’s ASC Draft Report, at 1.)

BPA staff believes costs associated with the Oregon’s Electric Restructuring Law should be functionalized to Distribution/Other.

Analysis of Positions:

In response to BPA’s ASC Draft Report, PAC asserts that when a customer chooses an electricity producer other than PAC, it frees up the electricity previously used by them to be sold on the short-term market and thus directly decreases PAC’s ASC. PAC contends that, since the underlying theme throughout the Generic Issue List (Section 6.1) is that similar accounts should receive similar functionalization, and the savings associated with Oregon’s Electric Restructuring Law reduce the Production component of PAC’s ASC, the costs associated with Oregon’s Electric Restructuring Law should similarly be functionalized to Production.

The Oregon’s Electric Restructuring Law is a retail issue and not a production or transmission issue. BPA treats the loss of a retail customer, whether from retail bypass or economic downturn, the same. BPA revenue credits the Contract System Costs with the off-system sales associated with a loss of retail load.

It is not clear to BPA how Oregon’s Electric Restructuring Law costs relate to PAC’s production or transmission functions. The costs associated with Oregon’s Electric Restructuring Law reflect the implementation costs of a change in the regulatory structure and its effects are primarily in the billing and customer service functions. BPA has been consistent in functionalizing other accounts that relate to billing and customer service functions to Distribution. This law is directly related to a retail customer’s choice and is not a cost of production and/or transmission of electricity. BPA is consistent in the treatment of surplus electricity that is not used to meet retail load requirements. These surplus sales revenues are credited against Contract System Costs for ASC purposes. No information was provided to indicate what the net effect on ASCs would be from a customer bypass as a result of Oregon’s Electric Restructuring Law.

Decision:

Account 1823040, costs associated with the Oregon’s Electric Restructuring Law, will be functionalized to Distribution/Other.

**Table 4.2.21: Account 182.3 - Other Regulatory Assets:
Account 1823040 - Oregon’s Electric Restructuring Law
(\$000s)**

As Filed		Total	Oregon	Washington	Idaho
	PROD	\$ 14,303	\$ 14,303		
Adjusted	DIST	\$ 14,303	\$ 14,303		

4.2.22. Account 182.3 - Other Regulatory Assets: Account 187003 - Oregon Utility Regulation Transition Costs

Statement of Issue:

Should assets that are not allocated to the PNW region in detail be allocated to Oregon in the summation calculation - Account 187003 (Oregon Utility Regulation Transition Costs) and are Oregon Utility Regulation Transition Costs exchangeable?

Statement of Facts:

On line 782 of PAC’s Appendix 1 Filing, Tab Regulatory Assets, PAC allocates this account to “Other”; however, in Line 833 this is allocated to Oregon.

PAC states that “BPA erroneously describes the account at issue and misunderstands the result of operations report. In the result of operations report, costs are allocated to the State, FERC or Other jurisdictions. If costs are allocated to a State, then such costs are included in the calculation of the revenue requirement for that State. State-specific costs may also be recovered

from a State through a supplemental schedule. In that case, those costs will be allocated to Other in the result of operations report to insure that PAC does not recover the costs twice from Oregon ratepayers.” (See PAC’s Issue List Response to BPA, Issue 24.)

PAC contends Oregon’s Electric Restructuring Law allows a customer the choice of electricity producer and therefore the cost of allowing a customer his choice of electricity producer should be functionalized to Production. The costs associated with Oregon’s Electric Restructuring Law, however, relate to the retail side of PAC’s business and do not pertain to the production or transmission of electricity. (See PAC’s Comments on BPA’s ASC Draft Report, at 1.)

Parties’ Positions:

PAC contends that Account 187003 (Oregon Utility Regulation Transition Costs) is accurately allocated between jurisdictions and that the Oregon Utility Regulation Transition Costs are production-related.

PAC asserts that the correct functionalization for this account is Production. PAC contends that BPA’s assertion on page 34 of the ASC Draft Report that “[t]he costs associated with Oregon’s Electric Restructuring Law, however, relate to the retail side of the business and do not pertain to the production or transmission of electricity” is incorrect.” As stated in the same paragraph, the “[l]aw allows a customer the choice of electricity producer.” When a customer chooses an electricity producer other than PAC, this frees up the electricity previously used by them to be sold on the short-term market and thus directly decreases PAC’s ASC. PAC contends that since the underlying theme throughout the Generic Issue List (Section 6.1) is that similar accounts should receive similar functionalization, the savings associated with Oregon’s Electric Restructuring Law reduce the Production component of PAC’s ASC. Therefore, PAC contends that the costs associated with Oregon’s Electric Restructuring Law should similarly be functionalized to Production.

BPA staff believes costs associated with Oregon’s Electric Restructuring Law should be functionalized to Distribution/Other.

Analysis of Positions:

In response to BPA’s ASC Draft Report, PAC asserts that when a customer chooses an electricity producer other than PAC, it frees up the electricity previously used by them to be sold on the short-term market and thus directly decreases PAC’s ASC. PAC contends that, since the underlying theme throughout the Generic Issue List (Section 6.1) is that similar accounts should receive similar functionalization, and the savings associated with Oregon’s Electric Restructuring Law reduce the Production component of PAC’s ASC, the costs associated with Oregon’s Electric Restructuring Law should similarly be functionalized to Production.

The Oregon’s Electric Restructuring Law is a retail issue and not a production or transmission issue. BPA treats the loss of a retail customer, whether from retail bypass or economic downturn, the same. BPA will revenue credit Contract System Costs with the off-system sales associated with a loss of retail load.

It is not clear to BPA how Oregon’s Electric Restructuring Law costs relate to PAC’s production or transmission functions. The costs associated with Oregon’s Electric Restructuring Law reflect the implementation costs of a change in the regulatory structure and its effects are primarily in the billing and customer service functions. BPA has been consistent in functionalizing other accounts that relate to billing and customer service functions to Distribution. This law is directly related to a retail customer’s choice and is not a cost of production and/or transmission of electricity. BPA is also consistent in the treatment of surplus electricity that is not used to meet retail load requirements. These surplus sales revenues are credited against Contract System Costs for ASC purposes. No information was provided to indicate what the net effect on ASCs would be from a customer bypass as a result of the Oregon’s Electric Restructuring Law.

Decision:

Costs associated with Oregon’s Electric Restructuring Law will be functionalized to Distribution/Other.

**Table 4.2.22: Account 182.3 - Other Regulatory Assets:
Account 187003 - Oregon Utility Regulation Transition Costs
(\$000s)**

		Total	Oregon	Washington	Idaho
As Filed					
	PROD	\$1,576	\$ 1,576		
Adjusted					
	DIST	\$1,576	\$ 1,576		

4.2.23. Account 182.3 - Other Regulatory Assets: RTO Grid West N/R – OR

Statement of Issue:

What is the correct functionalization of Account 182.3 - Other Regulatory Assets?

Should assets that are not allocated to the PNW region in detail be allocated to Oregon in the summation calculation- RTO Grid West N/R – OR?

Statement of Facts:

PAC functionalized subaccount 187081 to Transmission. See PAC’s Appendix 1 Filing, Line 839, Regulatory Assets Tab.

There appears to be an inconsistency between how this account is functionalized in the Result of Operations Report and how the costs are allocated to the PNW for ASC purposes.

This account is for RTO Grid West N/R – OR.

In line 788 of PAC's Appendix 1 Filing, Regulatory Assets Tab PAC allocates this account to "Other"; however, in Line 833 it is allocated to Oregon.

PAC states that "BPA misunderstands the results of operations report. In the results of operations report, costs are allocated to the State, FERC or Other jurisdictions. If costs are allocated to a State, then such costs are included in the calculation of the revenue requirement for that State. State-specific costs may also be recovered from a State through a supplemental schedule. In that case, those costs will be allocated to Other in the results of operations report to insure that PAC does not recover the costs twice from Oregon ratepayers." (See PAC's Issue List Response to BPA, Issue 25.)

Additionally, PAC states that "Account 187081 (line 788) RTO Grid West N/R – Oregon represents Oregon's share of funds loaned to Grid West. Deferred accounting for these funds was approved by the OPUC on August 22, 2006 in Docket UM 1256 (Order 06-483). The Company has not yet requested amortization either through base rates or a supplemental schedule. These are costs incurred by the Company's Oregon ratepayers and should be included in the ASC calculation." (See PAC's Issue List Response to BPA, Issue 25.)

Parties' Positions

PAC contends that Account 182.3 costs are costs for RTO Grid West N/R – OR incurred by the Company's Oregon ratepayers and should be included in the ASC calculation.

BPA staff believes that Account 182.3 - Other Regulatory Assets should be functionalized to Transmission. Assets that are not allocated to the PNW region in detail should be allocated to Oregon in the summation calculation- RTO Grid West N/R – OR.

Analysis of Positions:

PAC's explanation of the direct allocation of Oregon costs to the PNW jurisdiction is sufficient to allocate the costs to Production.

Decision:

Account 182.3 - Other Regulatory Assets will be functionalized to Transmission. Assets that are not allocated to the PNW region in detail will be allocated to Oregon in the summation calculation- RTO Grid West N/R – OR.

4.2.24. Account 182.3 - Other Regulatory Assets: Account 1823920 - Franchise Taxes

Statement of Issue:

What is the correct functionalization of the Account 182.3 – Other Regulatory Assets – Franchise Taxes?

Statement of Facts:

This Account includes a tax on a compilation of costs related to Idaho DSM activities. *See* Lines 580 – 727 of PAC’s Appendix 1 Filing, Regulatory Assets Tab.

PAC originally functionalized sub-account 1823920 to Production. *See* Line 827 of PAC’s Appendix 1 Filing, Regulatory Assets Tab.

PAC included “Franchise Taxes” in lines 616, 617 and 619 of PAC’s Appendix 1 Filing, Regulatory Assets Tab.

PAC now agrees that the Franchise Tax System should be functionalized to Distribution. (*See* PAC’s Issue List Response to BPA, Issue 27.)

Parties’ Positions:

PAC now agrees that the Franchise Tax System should be functionalized to Distribution/Other.

BPA staff believes the Franchise Tax System should be functionalized to Distribution/Other.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

Under Section 4.8.2 of the 2008 ASCM, Franchise Taxes are not exchangeable.

BPA and PAC agree that the Franchise Tax System should be functionalized to Distribution/Other.

Decision:

Account 182.3 – Other Regulatory Assets – Franchise Taxes will be functionalized to Distribution/Other.

**Table 4.2.25: Account 182.3 - Other Regulatory Assets:
Franchise Taxes
(\$000s)**

101336	Oregon Franchise Tax	IDU	\$ 2
101337	Washington Franchise Tax	IDU	\$ 2
101339	Wyoming Franchise Tax	IDU	\$ 2

4.2.25. Account 253 - Other Deferred Credits: *Unearned Joint Use Pole Contact Revenue*

Statement of Issue:

What is the correct functionalization of Account 253 - Other Deferred Credits Unearned Joint Use Pole Contact Revenue?

Statement of Facts:

In PAC's response to BPA Data Request 37 filed January 8, 2009, PAC stated that Unearned Joint Use Pole Contact Revenue the portion of Pole Contact Rental that has been billed but not yet earned. A portion is recognized to the revenue account 301864 (Revenue - Joint use of Poles) monthly. There are four cycles of contact rental billings during the year. At the beginning of each quarter, a file is received detailing the amount of Joint Use contact rental billings that will be billed for the future year. The annual Contact Rental billing is deferred unearned revenue that is booked (credited) to account 289005 Unearned Joint Use Pole Contact Revenue with the offsetting entry being booked to (debited) account 301864 Revenue - Joint use of Poles. Each month, a portion of this is then amortized. Unearned Joint Use Pole Contact Revenue does not include any costs associated with transmission towers and should be functionalized to DIST. The cost allocator is shown in cells D145 – D151. These cells are state specific and inappropriate allocation method for transmission costs which would be allocated SE or SG.”

PAC's original filing functionalized this account using Distribution/Other.

Parties' Positions:

PAC supports the functionalization of this account to Distribution/Other.

BPA staff believes this account should be functionalized to Distribution/Other.

Analysis of Positions:

BPA believes 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. *See* Section 6.1.1 of this Report.

PACs explanation of the Unearned Joint Use Pole Contact Revenue indicates that the account does not include any costs associated with transmission towers and should be functionalized to Distribution.

BPA agrees with PAC functionalization of this account to Distribution/Other.

Decision:

Account 253 - Other Deferred Credits Unearned Joint Use Pole Contact Revenue will be functionalized to Distribution/Other.

4.2.26. Account 253 - Other Deferred Credits: *American Electric Power CRP*

Statement of Issue:

What is the correct functionalization of Account 253 - Other Deferred Credits American Electric Power CRP?

Statement of Facts:

PAC's original filing functionalized this account using Production.

An email from PAC dated March 27, 2009, indicates that the statement in the Company's response to BPA Data Request 37 filed January 8, 2009: "289316 American Electric Power CRP – A prepayment from American Electric Power now fully amortized. It should be functionalized to PROD" was inaccurate.

PAC stated that American Electric Power CRP is incorrectly functionalized to Production in the filing. It is related to a Transmission Service Deposit (*see* FERC Form 1, page 269, line 19) and should be functionalized to Transmission. (See PAC's Issue List Response to BPA, Issue 29)

Parties' Positions:

PAC supports the re-functionalization of this account to Transmission.

BPA staff believes this account should be functionalized to Transmission.

Analysis of Positions:

BPA believes 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. *See* Section 6.1.1 of this Report.

PAC's explanation of the American Electric Power CRP indicates that the account is transmission-related and should be functionalized to Transmission.

BPA supports the functionalization to Transmission.

Decision:

Account 253 - Other Deferred Credits American Electric Power Crp will be functionalized to Transmission.

**Table 4.2.27: Account 253 - Other Deferred Credits:
American Electric Power CRP
(\$000s)**

	Oregon	Wash	'Idaho
As Filed			
	Prod	Prod	Prod
American Electric Power Crp	-\$ 457	-\$ 132	-\$ 101
Adjusted			
	Tran	Tran	Tran
American Electric Power Crp	-\$ 457	-\$ 132	-\$ 101

4.2.27. Account 253 - Other Deferred Credits: *Redding Contract*

Statement of Issue:

What is the correct functionalization of Account 253 - Other Deferred Credits Redding Contract?

Statement of Facts:

As described in the Company’s response to BPA Data Request 37 filed January 8, 2009: 289909 Redding Contract – A \$43 million upfront payment from Redding is amortized in two pieces. \$32,000,000 is the energy portion (firm capacity prepayment) over 5 years through Nov. 30, 2000 and \$11,000,000 is transmission portion (advance wheeling reimbursement) over 20 years through November 30, 2015. It should be functionalized to PROD.”

PAC’s original filing functionalized this account using Production.

Parties’ Positions:

PAC supports the functionalization of this account to Production.

BPA staff believes this account should be functionalized to Production.

Analysis of Positions:

BPA believes 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. *See* Section 6.1.1 of this Report.

PAC’s explanation of the Redding Contract indicates that the account is production (purchase)-related and should be functionalized to Production.

BPA supports the functionalization to Production.

Decision:

Account 253 - Other Deferred Credits Redding Contract will be functionalized to Production.

There is no change to the functionalization.

4.2.28. Account 253 - Other Deferred Credits: Foote Creek Contract

Statement of Issue:

What is the correct functionalization of the Account 253 - Other Deferred Credits Foote Creek Contract?

Statement of Facts:

As described in the Company's response to BPA Data Request 37 filed January 8, 2009: "289915 Foote Creek Contract - PPL paid the full cost of the Transmission and Substation plant for Foote Creek I. Initially this cost was to be shared with EWEB but later it was decided that PPL would own this portion of the facility. EWEB made a one-time payment to cover use of facility charges over the life of the Foote Creek I agreement. This payment is now being applied to the use of facility charges at Foote Creek 2, 3 and 4. It should be functionalized to TRAN."

PAC's original filing functionalized this account using Transmission.

Parties' Positions:

PAC supports the functionalization of this account to Transmission.

BPA staff believes this account should be functionalized to Transmission.

Analysis of Positions:

BPA believes 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. *See* Section 6.1.1 of this Report.

PAC's explanation of the Foote Creek Contract indicates that the account is for Deferred Credits for EWEB's one-time payment to cover use of facility charges over the life of the Foote Creek I Agreement (the Transmission and Substation plant for Foote Creek) and therefore should be functionalized to Transmission.

BPA supports the functionalization to Transmission.

Decision:

Account 253 - Other Deferred Credits Foote Creek Contract will be functionalized to Transmission.

There is no change to the functionalization.

4.2.29. Account 253 - Other Deferred Credits: Software License Payments – Microsoft

Statement of Issue:

What is the correct functionalization of Account 253 - Other Deferred Credits: Software License Payments – Microsoft?

Statement of Facts:

As described in the Company's response to BPA Data Request 37 filed January 8, 2009, costs associated with "289530 Software License Payments – Microsoft are used to defer software licenses asset. It should be functionalized PTD."

PAC's original filing functionalized this account using PTD.

PAC's explanation of the items was not sufficiently clear to allow an understanding of the software's purposes and therefore the applicability and justification of the functionalization using the PTD ratio. (See PAC's Issue List Response to BPA, Issue 28)

Parties' Positions:

PAC contends that costs associated with "289530 Software License Payments – Microsoft" should be functionalized using the PTD ratio.

BPA staff believes this account should be functionalized using the Labor ratio.

Analysis of Positions:

BPA believes 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. *See* Section 6.1.1 of this Report.

PAC's explanation of the items was not sufficiently clear to allow an understanding of the software's purposes and therefore the applicability and justification of the functionalization using the PTD ratio.

BPA contends that the software classified as Software License Payments – Microsoft is more accurately functionalized to the operation it supports, which are PAC's employees. Therefore, the Labor ratio more accurately reflects the appropriate functionalization.

Decision:

Account 253 - Other Deferred Credits 'software License Payments – Microsoft will be functionalized to Labor.

**Table 4.2.28: Account 253 - Other Deferred Credits:
Software License Payments – Microsoft
(\$000s)**

		Prod	Tran	Dist
	Oregon			
PTD	-\$159	(\$71)	(\$31)	(\$56)
	Washington			
PTD	-\$43	(\$19)	(\$8)	(\$15)
	Idaho			
PTD	-\$31	(\$14)	(\$6)	(\$11)
		Prod	Tran	Dist
	Oregon			
LABOR	-\$159	(\$73)	(\$14)	(\$73)
	Washington			
LABOR	-\$43	(\$20)	(\$4)	(\$20)
	Idaho			
LABOR	-\$31	(\$14)	(\$3)	(\$14)

**4.2.30. Account 253 - Other Deferred Credits: Def Rev-Duke/Hermiston Gas Sale
Novation**

Statement of Issue:

What is the correct functionalization of Account 253 - Other Deferred Credits Def Rev-Duke/Hermiston Gas Sale Novation?

Statement of Facts:

As described in the Company’s response to BPA Data Request 37 filed January 8, 2009, “289025 DEF REV-DUKE/HERMISTON GAS SALE NOVATION - Payment is for the assignment of the gas purchase agreement for Hermiston. The amount in this account is the amount received less monthly amortization. It should be functionalized to PROD.”

PAC’s original filing functionalized this account using Production.

Parties’ Positions:

PAC supports the functionalization of this Account to Production.

BPA staff believes this account should be functionalized to Production.

Analysis of Positions:

The functionalization of a deferred credit should follow the functionalization of the operation it supports and how the operation is functionalized under the 2008 ASCM.

PAC's explanation of the Def Rev-Duke/Hermiston Gas Sale Novation indicates that the account is production (gas purchase)-related and should be functionalized to Production.

BPA supports the functionalization to Production.

Decision:

Account 253 - Other Deferred Credits Def Rev-Duke/Hermiston Gas Sale Novation will be functionalized to Production.

There is no change to the functionalization.

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 Adjustments

No direct adjustment.

4.7. SCHEDULE 3B: Other Included Items

4.7.1. Schedule 3B - Other Items Account 421 - Miscellaneous Non-operating Income: *Other Misc Sales & Services Revenue*

Statement of Issue:

What is the correct functionalization of Account 421 - Miscellaneous Non-operating Income - Other Misc Sales & Services Revenue?

Statement of Facts:

As described in the Company's response to BPA Data Request 39 filed January 8, 2009 and Response to BPAs Issue List, Issue 31, "Other Misc Sales & Services Revenue is the "profit on the sale of timber" from land included in Account 121 – Non Utility Property. Account 121 is not utilized in the Average System Cost Methodology, so any expense related to this balance sheet approach must be functionalized to distribution. (Electric Plant Instruction 7C requires that the profit on the sale of timber from Land included in Plant in Service or Plant Held for Future Use be booked to the appropriate utility operating account.)"

Parties' Positions:

PAC supports the functionalization of this Account to Distribution.

BPA staff believes this account should be functionalized to Distribution/Other.

Analysis of Positions:

BPA believes 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. *See* Section 6.1.1 of this Report.

PAC's explanation of Account 421 - Miscellaneous Non-operating Income - Other Misc Sales & Services Revenue indicates that the account is "profit on the sale of timber" from land included in Account 121 – Non Utility Property. Account 121 is not used in the 2008 ASCM and should be functionalized to Distribution.

Decision:

Account 421 - Miscellaneous Non-operating Income - Other Misc Sales & Services Revenue will be functionalized to Distribution/Other.

There is no change to the functionalization.

**4.7.2. Schedule 3B - Other Items Account 421 - Miscellaneous Non-operating Income:
*Gain on Sale of Investments***

Statement of Issue:

What is the correct functionalization of Account 421 - Miscellaneous Non-operating Income - Gain on Sale of Investments?

Statement of Facts:

As described in the Company's response to BPA Data Request 39 filed January 8, 2009, and response to BPA's Issue List, Issue 31, "Gain on Sale of Investments income results from the sale of investments in Account 124 – Other Investments. This account is functionalized to distribution, thus any gain on the sale of the investments must also be functionalized to distribution."

Parties' Positions:

PAC supports the functionalization of this Account to Distribution.

BPA staff believes this account should be functionalized to Distribution/Other.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

PAC's explanation of Account 421 - Miscellaneous Non-operating Income - Gain on Sale of Investments indicates that the Account is from the sale of investments in Account 124 – Other Investments:

FERC definition of Account 124 – Other Investments - This account shall include the book cost of investments in securities issued or assumed by non-associated companies, investment advances to such companies, and any investments not accounted for elsewhere. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments.

Account 124 is not used in the 2008 ASCM and should be functionalized to Distribution/Other.

Decision:

Account 421 - Miscellaneous Non-operating Income - Gain on Sale of Investments will be functionalized to Distribution/Other.

There is no change to the functionalization.

**4.7.3. Schedule 3B - Other Items Account 421 - Miscellaneous Non-operating Income:
ARO - Misc Non-Oper Inc/Exp**

Statement of Issue:

What is the correct functionalization of Account 421 - Miscellaneous Non-operating Income - ARO - Misc Non-Oper Inc/Exp?

Statement of Facts:

As described in the Company's response to BPA Data Request 39 filed January 8, 2009, and response to BPA's Issue List, Issue 31, "ARO - Misc Non-Oper Inc/Exp is the accretion and depreciation expense for asset retirements costs included in Account 230 – Asset Retirement Obligations – related to non-utility plant. Account 230 is not utilized in the Average System Cost Methodology, so any expense related to this balance sheet approach must be functionalized to distribution."

Parties' Positions

PAC supports the functionalization of this Account to Distribution/Other.

BPA staff believes this account should be functionalized to Distribution/Other.

Analysis of Positions:

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. See Section 6.1.1 of this Report.

PAC's explanation of Account 421 - Miscellaneous Non-operating Income - ARO - Misc Non-Oper Inc/Exp indicates that the Account is accretion and depreciation expense for asset retirement costs included in Account 230 – Asset Retirement Obligations – related to non-utility plant. Account 230 is not used in the 2008 ASCM and should be functionalized to Distribution/Other.

Decision:

Account 421 - Miscellaneous Non-operating Income - ARO - Misc Non-Oper Inc/Exp will be functionalized to Distribution/Other.

There is no change to the functionalization.

**4.7.4. Schedule 3B - Other Items Account 456 - Other Electric Revenues: Oth
El/Excl Wheel & Misc Other Rev**

Statement of Issue:

What is the correct functionalization of Account 456 - Other Electric Revenues (Oth El/Excl Wheel & Misc Other Rev)?

Statement of Facts:

As described in the Company's response to BPA Data Request 40 filed January 8, 2009 and response to BPA's Issue List, Issue 32, the Oth El/Excl Wheel account is "Other electric revenue excluding wheeling revenue." The Misc Other Rev account is miscellaneous other revenue. It consists of electric "revenues derived from electric operations not included in any of the foregoing accounts" (Accounts 450, 451, 453 – 455). It also excludes "revenues from transmission of electricity of others over transmission facilities of the utility." These two accounts are directly assigned to each state and thus must be functionalized to Distribution. (*See* Response to BPA Data Request 3.) Based on PAC's Revised Protocol (process under which the state jurisdictions where PAC operates allocate costs between the states), only costs associated with the distribution function can be allocated to the states.

PAC's original filing functionalized this account using Distribution/Other.

Parties' Positions:

PAC supports the functionalization of this account to Distribution.

BPA staff believes this account should be functionalized to Distribution/Other.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

The costs that are allocated to the PNW states are based on the "Revised Protocol" and are only distribution-related costs.

BPA supports the functionalization to Distribution/Other.

Decision:

Account 456 - Other Electric Revenues (Oth El/Excl Wheel & Misc Other Rev) will be functionalized to Distribution/Other.

There is no change to the functionalization.

4.7.5. Schedule 3B - Other Items Account 456 - Other Electric Revenues: Use Of Facil Rev

Statement of Issue:

What is the correct functionalization of Account 456 - Other Electric Revenues 456.21 - Use Of Facil Rev?

Statement of Facts:

As described in the Company's responses to BPA Data Requests 28 and 40 filed January 8, 2009, and its response to BPA's Issue List, Issue 30, the Company recommends that the Use Of Facil Rev (Other Companies Use of the Company's Transmission and Distribution) account be functionalized using the TD ratio.

PAC's original filing functionalized this account using the TD ratio.

Parties' Positions

PAC supports the functionalization of this Account using the TD ratio.

BPA supports functionalization using the TD ratio.

Analysis of Positions:

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. *See* Section 6.1.1 of this Report.

PAC's description of the Account confirms that the revenues associated with the account are related to the Company's transmission and distribution assets and therefore should be functionalized to Transmission and Distribution.

BPA supports functionalization using the TD ratio.

Decision:

Account 456 - Other Electric Revenues 456.21 - Use Of Facil Rev will be functionalized to Transmission and Distribution.

There is no change to the functionalization.

4.8. SCHEDULE 4: Average System Cost

No direct adjustment

5. SUPPORTING DOCUMENTATION:

5.1. Purchased Power and Sales for Resale

See Section 5.6.1 - Book-outs and price spread.

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. Fuel Expenses

Statement of Issue:

Did PAC properly account for fuel expenses in its New Resource additions?

Statement of Facts:

PAC forecasted the fuel costs for the Lake Side Capital Building and Chehalis to be \$38,455,526 and \$34,136,407, respectively.

In PAC's response to BPA Data Request 1 filed January 8, 2009, PAC provided the following operating characteristics:

	Lake Side Capital Building	Chehalis
Location	Utah	Chehalis, WA
Installed Capacity (MW)	540	525
Percent Ownership	100	100
Capacity Factor	49.4	39.9
Availability Factor	92	92
Fuel	Gas	Gas
Unit	MCF	MMBtu
Average Cost	5.897	9.63
Basis	Actual	Budget
Heat Content	1050	1030
Cost/kWh	0.039	0.0688
Heat Rate	6873	7138

Parties' Positions:

PAC supports the operating characteristics for Lake Side Capital Building and Chehalis as reported in PAC's response to BPA Data Request 1 filed January 8, 2009.

BPA staff supports PAC's revised operating characteristics.

Analysis of Positions:

Both PAC and BPA support PAC's changes to Lake Side Capital Building and Chehalis fuel costs.

Decision:

BPA amended PAC's initial forecast to reflect changes in Lake Side Capital Building and Chehalis fuel costs.

**Table 5.5.1: Forecast Model – Fuel Costs:
Lake Side Capital Building and Chehalis
(\$000s)**

As-Filed		Lake Side Capital Building	Chehalis
Other Power - Fuel	547	38,455,526	34,136,407
ADJUSTED			
Other Power - Fuel	547	39,786,167	48,585,130

5.5.2. Materiality of New Resource Additions

Statement of Issue:

Should New Resource Additions be regrouped as their materiality changes due to PAC’s misinterpretation of the materiality test in the 2008 ASCM or from changes in the natural gas price forecast?

Statement of Facts:

Based on the materiality test as defined by the 2008 ASCM, changes in the Base Period ASC, market price forecast, natural gas price forecast, fuel costs, and Expected Annual Generation (MWhs) have resulted in some of the new resource additions becoming immaterial at either the 0.5% or the 2.5% thresholds. See 18 CFR § 301.5(5)(c)(3).

Parties’ Positions:

PAC requested that the new resources be regrouped.

BPA staff agrees that PAC’s new resources should be regrouped.

Analysis of Positions:

BPA agrees with PAC that the new resource additions should be regrouped if they can meet the materiality tests as described in the 2008 ASCM. In the event changes in the Base Period ASC, market price forecast, natural gas price forecast, fuel costs, and Expected Annual Generation would have been known at the time of the initial filing, it is assumed the exchanging utility would have regrouped its resources accordingly. BPA will work with interested parties to help define the manner in which regrouping will be determined by BPA for future filings.

Decision:

BPA amended PAC's New Resource Additions Tab to reflect the regrouping of PAC's New Resource Additions.

**Table 5.5.2a: Forecast Model:
New Resource Additions**

	Materiality Test	Materiality	Grouping	Group – Online Date
Lake Side Capital Building	0.97%	Material	Group A	06/01/08
Blundell Bottoming Cycle	0.17%	Immaterial		
CHOLU4 CAI Environmental Projects	1.02%	Material	Group A	06/01/08
Goodnoe Hills Wind Project (94 MW)	0.60%	Material	Group A	06/01/08
Marengo	0.80%	Material	Group C	09/01/08
Chehalis (525 MW)	3.21%	Material	Group B	09/01/08
Hydro Relicensing	0.23%	Immaterial		
Rolling Hills Wind Project PJ (99 MW)	0.86%	Material	Group C	1/31/09
Glenrock Wind Plant (99 MW)	0.81%	Material	Group C	1/31/09
Seven Mile Hill Wind Plant (99 MW)	0.77%	Material	Group C	1/31/09
GLENROCK III WIND PROJECT	0.30%	Immaterial		
SEVEN MILE HILL II WIND PROJECT	0.16%	Immaterial		
Highplains I Wind Project	0.99%	Material		

**Table 5.5.2b: Forecast Model:
New Resource Additions**

Grouping	Group – Online Date	Materiality Test
Group A	06/01/08	2.59%
Group B	09/01/08	3.21%
Group C	1/31/09	3.24%

5.5.3. General Errors in the ASC Appendix 1 and ASC Forecast Model

Statement of Issue:

Did PAC properly complete, enter correct values, and modify the Appendix 1 template and ASC Forecast Model?

Statement of Facts:

PAC made an error in the completion of the Appendix 1 template, which was not discovered by BPA staff until the final quality control review of the ASC Draft Report Appendix 1 and ASC Forecast model. The error was caused by complexities unique to PAC and was a result of the PAC’s jurisdictional allocation of costs to the PNW and then the summing of the state allocation to the total PNW.

PAC used a Direct Analysis to functionalize accounts Acquisition Adjustments (Electric), Miscellaneous Deferred Debits, Other Deferred Credits, and Other Regulatory Liabilities in the Oregon Rate Base, Washington Rate Base and Idaho Rate Base, but did not change the functionalization code to Direct Analysis in the Sch 1- Rate Base tab. The forecast model uses the functionalization code from the Sch 1- Rate Base tab. Therefore, when these accounts are imported into the forecast model they are functionalized to Distribution for the Exchange Period ASC determination.

Parties’ Positions:

No parties submitted comments on this issue.

Analysis of Positions:

Table 1 of the 2008 ASCM provides that the functionalization method for this account is Distribution with no optional functionalization. However, the 2008 ASCM allows utilities to perform a Direct Analysis on any account that contain conservation program costs.

A Direct Analysis may be performed only if Table 1 indicates that a utility may perform a Direct Analysis on the Account. The only exception to this requirement is for conservation-related

costs. Because the FERC Form 1 does not contain a specific set of accounts for conservation-related costs, utilities record those costs in a variety of FERC accounts.

Because utilities can perform a Direct Analysis on Acquisition Adjustments (Electric), Miscellaneous Deferred Debits, Other Deferred Credits, and Other Regulatory Liabilities, BPA advocates adjusting the Sch 1- Rate Base tab to reflect the Direct Analysis performed in the state-specific tabs.

Decision:

BPA amended PAC's Appendix 1 template to reflect the functionalization code for Direct Analysis.

Table 5.2.3: Appendix 1 Template and Forecast Model: Functionalization

As-Filed							
Miscellaneous Deferred Debits	186	DIST	DIST	\$22,345,790			\$22,345,790
Other Deferred Credits	253	DIST	DIST	\$49,127,992			\$49,127,992
Other Regulatory Liabilities	254	DIST	DIST	\$46,201,388			\$46,201,388
ADJUSTED							
Miscellaneous Deferred Debits	186	DIRECT	DIST	\$22,345,790	\$16,322,566	\$0	\$6,023,224
Other Deferred Credits	253	DIRECT	DIST	\$49,127,992	\$5,927,010	\$532,878	\$42,668,104
Other Regulatory Liabilities	254	DIRECT	DIST	\$46,201,388	\$569,243	\$249,490	\$45,382,654

5.6. Purchased Power Expenses; and Account 447, Sales for Resale

5.6.1. Account 555, Purchased Power Expenses; Account 447, Sales for Resale; Price Spread

Statement of Issue: Book-outs

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

Statement of Facts:

PAC reduced the amount of its purchased power expense and sales for resale revenue by book-outs and trading adjustments. It appears that other exchanging utilities do not.

The inclusion or exclusion of book-outs and trading adjustments in purchased power and sales for resale numbers affects the price spread calculation. BPA is considering whether it is

appropriate to remove these adjustments when performing the price spread calculation and calculating ASCs.

Parties' Positions

Avista, Idaho Power, NorthWestern, PAC and PGE's Issue List proposal filed February 25, 2009, stated that the IOUs support a consistent reporting of purchase power expenses and sales for resale among exchanging utilities for the determination of price spread. If BPA 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 Issue List proposal filed February 25, 2009, 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. *See* Section 6.1.5 of this Report.

Snohomish supports consistent reporting of purchase power expenses and sales for resale among the exchanging utilities for the determination of price spread. If BPA determines the amounts used to calculate each company's price spread as reported in the FERC Form 1, it should be without book-outs. *See* Section 6.1.5 of this Report.

BPA staff believes PAC's price spread should be revised to eliminate book-outs.

Analysis of Positions:

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

Decision:

BPA re-estimated PAC's price spread to remove book-outs.

**Table 5.6.1.a: Account 555, Purchased Power Expenses; Account 447, Sales for Resale:
Price Spread – As-filed**

	326 Purchase Power '04	327 Purchase Power '05	327 Purchase Power '06		326 Purchase Power '04	327 Purchase Power '05	327 Purchase Power '06
RQ	\$ -	\$ -	\$ -	RQ	-	-	-
LF	\$77,666,227	\$86,311,773	\$93,368,189	LF	1,745,054	1,984,555	2,094,727
IF	\$23,979,205	\$32,633,176	\$26,940,730	IF	354,886	596,738	490,384
SF	\$362,041,118	\$448,874,755	\$629,255,096	SF	8,036,617	7,569,994	11,778,136
LU	\$87,009,623	\$96,384,996	\$104,395,350	LU	2,274,970	2,316,253	2,408,570
IU	\$10,459,134	\$13,681,048	\$17,715,091	IU	97,904	182,710	228,119
OS	\$12,074,076	\$13,381,110	\$24,738,081	OS	302,638	320,679	546,879
EX	\$(350,894)	\$(1,009,066)	\$9,904,598	EX	-	-	-
NA	\$ -	\$ -	\$5,370,832	NA	2,593	-	2,593
AD	\$(390,887,880)	\$(360,155,268)	\$(571,010,776)	AD	(6,325,905)	(6,381,434)	(10,928,717)
	310- 311SalesforResal e'04	310- 311SalesforResal e'05	310- 311SalesforResal e'06		310- 311SalesforResal e'04	310- 311SalesforResal e'05	310- 311SalesforResal e'06
RQ	\$2,962,898	\$3,059,692	\$3,204,674	RQ	83,439	86,211	89,457
LF	\$108,661,813	\$92,511,215	\$91,819,049	LF	2,377,583	1,976,611	1,976,556
IF	\$1,103,210	\$5,692,330	\$5,329,583	IF	30,013	144,412	127,192
SF	\$376,890,492	\$500,778,779	\$760,964,082	SF	8,887,088	9,272,447	14,165,897
LU	\$10,021,157	\$10,646,497	\$11,269,571	LU	260,922	247,097	262,477
IU	\$25,681	\$275,691	\$275,518	IU	676	7,255	7,250
OS	\$8,220,977	\$2,076,721	\$(2,303,403)	OS	183,802	57,309	(41,670)
EX	\$ -	\$ -	\$ -	EX	-	-	-

	310- 311SalesforResal e'04	310- 311SalesforResal e'05	310- 311SalesforResal e'06		310- 311SalesforResal e'04	310- 311SalesforResal e'05	310- 311SalesforResal e'06
NA	\$17,430,387	\$ -	\$7,034,848	NA	6,484	-	(50,740)
AD	\$(389,504,354)	\$(359,939,888)	\$(566,644,288)	AD	(6,298,881)	(6,294,396)	(10,881,248)
Average PP Price	(8.51)	66.98	66.52				
Average Sales for Resale Price	(1.58)	47.08	59.21				
Spread from Mid Point	\$(3.46)	\$9.95	\$3.66				
Mid-Point	\$(5.045)	\$57.033	\$62.867				
Price Spread	68.6%	17.4%	5.8%				
Weighted Average Spread			20.15%				

**Table 5.6.1.b: Account 555, Purchased Power Expenses; Account 447, Sales for Resale:
Price Spread – ADJUSTED**

	326 Purchase Power '04	327 Purchase Power '05	327 Purchase Power '06		326 Purchase Power '04	327 Purchase Power '05	327 Purchase Power '06
RQ	\$ -	\$ -	\$ -	RQ	-	-	-
LF	\$77,666,227	\$86,311,773	\$93,368,189	LF	1,745,054	1,984,555	2,094,727
IF	\$23,979,205	\$32,633,176	\$26,940,730	IF	354,886	596,738	490,384
SF	\$362,041,118	\$448,874,755	\$629,255,096	SF	8,036,617	7,569,994	11,778,136
LU	\$87,009,623	\$96,384,996	\$104,395,350	LU	2,274,970	2,316,253	2,408,570
IU	\$10,459,134	\$13,681,048	\$17,715,091	IU	97,904	182,710	228,119
OS	\$12,074,076	\$13,381,110	\$24,738,081	OS	302,638	320,679	546,879
EX	\$(350,894)	\$(1,009,066)	\$9,904,598	EX	-	-	-
NA	\$ -	\$ -	\$5,370,832	NA	2,593	-	2,593
AD	\$(639,905)	\$(20,298,635)	\$(1,805,791)	AD	601	(6,487)	170
	310-311 Sales for Resale '04	310-311 Sales for Resale '05	310-311 Sales for Resale '06		310-311 Sales for Resale '04	310-311 Sales for Resale '05	310-311 Sales for Resale '06
RQ	\$2,962,898	\$3,059,692	\$3,204,674	RQ	83,439	86,211	89,457
LF	\$108,661,813	\$92,511,215	\$91,819,049	LF	2,377,583	1,976,611	1,976,556
IF	\$1,103,210	\$5,692,330	\$5,329,583	IF	30,013	144,412	127,192
SF	\$376,890,492	\$500,778,779	\$760,964,082	SF	8,887,088	9,272,447	14,165,897
LU	\$10,021,157	\$10,646,497	\$11,269,571	LU	260,922	247,097	262,477
IU	\$25,681	\$275,691	\$275,518	IU	676	7,255	7,250
OS	\$8,220,977	\$2,076,721	\$(2,303,403)	OS	183,802	57,309	(41,670)
EX	\$ -	\$ -	\$ -	EX	-	-	-
NA	\$17,430,387	\$ -	\$7,034,848	NA	6,484	-	(50,740)
AD	\$828,039	\$(21,553,969)	\$97,199	AD	560	52,960	476

	310-311 Sales for Resale '04	310-311 Sales for Resale '05	310-311 Sales for Resale '06	310-311 Sales for Resale '04	310-311 Sales for Resale '05	310-311 Sales for Resale '06
Average PP Price	44.74	55.93	53.72			
Average Sales for Resale Price	42.54	51.30	53.72			
Spread from Mid Point	\$1.10	\$2.32	\$0.00			
Mid-Point	\$43.642	\$53.612	\$53.719			
Price Spread	2.5%	4.3%	0.0%			
Weighted Average Spread			1.86%			

5.6.2. Statement of Issue: Residential Exchange Payment

Statement of Issue:

Should Residential Exchange Payments be included in Account 555 – Purchased Power?

Statement of Facts:

PAC accounted for Residential Exchange Payments in Account 555 – Purchased Power.

Parties' Positions

PAC supports the removal of Residential Exchange Payments from the calculation of ASC and the Purchased Power and Sales for Resale spread calculation.

BPA staff believes PAC's Residential Exchange Payments should be removed from the calculation of ASC and the Purchased Power and Sales for Resale spread calculation.

Analysis of Positions

Payments from BPA's Residential Exchange Program are not production or transmission costs and therefore should not be included in the calculation of ASC or the Purchased Power and Sales for Resale spread.

PAC supports the removal of Residential Exchange Payments from the calculation of ASC and the Purchased Power and Sales for Resale spread calculation.

Decision:

BPA removed Residential Exchange Payments from the calculation of PAC's ASC and the Purchased Power and Sales for Resale spread.

6. OTHER ISSUES

6.1. Generic Issue List

In addition to the above-noted issues, BPA raised seven issues that may be “generic” to all utilities. Following are the issues, which were discussed with the parties during the Review Process and published in the ASC Draft Report. In general, the IOUs responded in unison. Puget Sound submitted additional comments. Franklin PUD and Snohomish PUD did not respond in writing; however, Snohomish voiced support for the IOUs' 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 BPA's review of the exchanging utilities' ASC filings, BPA noticed that the Direct Analysis performed by the utilities resulted in different functionalization for similar types of software. For example, metering and customer information system (CIS) software was functionalized to Distribution/Other by PGE while Avista, IPC, PAC, PSE and NorthWestern functionalized such software using the PTD ratio. Section VIII of the ASCM specifies that the default functionalization for Account 303 – Intangible Plant - Miscellaneous is Direct Analysis, with an option to functionalize the Account to Distribution/Other.

The documentation supplied by the utilities to support use of the PTD ratio to functionalize items in Account 303 – Software was minimal.

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.

IOU Generic Issue List Responses, pg. 1, filed February 25, 2009.

However, parties filed separate responses concerning functionalization of software included in Account 303. For example, PSE 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.

PSE Generic Issue List Responses, pg. 1, filed February 25, 2009.

In PAC's February 11, 2009, response to BPA's Issues List, PAC repeatedly stated 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." PAC Issue List Responses to BPA, pg. 3, filed February 11, 2009.

Later, however, PAC offered the following answer in response to an issue BPA raised regarding a specific piece of software. In response to BPA's functionalization of a Customer Information System, PAC argued that "[i]n determining the proper functionalization, the focus should be on what costs the Company is recovering using this computer software." PACs Issue List Responses to BPA, pg. 2, filed February 11, 2009.

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.

PGE Issue List Responses to BPA, pg. 1, filed February 11, 2009.

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.

NorthWestern Energy Issue List Responses to BPA, pg. 1, filed February 11, 2009.

Snohomish County PUD's February 27, 2009, response to BPA's Issues List argued that:

BPA should maintain consistency in the functionalization of these common types of software assets, with costs greater than an identified threshold value, amongst utilities when calculating ASC.

Snohomish supports a consistent treatment for the accounting of similar types of software assets, but suggests that BPA also maintain direct assignment as an alternative.

On page 5 of PSE's comments on BPA's ASC Draft Report, PSE expressed concern about the manner in which the software functionalization was developed and whether it adequately and accurately reflects PSE's software. *See* PSE Comments on BPA ASC Draft Report, pg. 5, filed May 11, 2009. For example, PSE is concerned that BPA associated the name of PSE software with the name of similar commercial products, resulting in misidentification of software. *Id.* In addition, PSE notes that commercial software is often modified and enhanced considerably to meet the requirements of a utility. *Id.* PSE is also concerned that BPA's software functionalization framework predetermines the functionalization of a software asset. *Id.* Finally, PSE suggests that BPA's software functionalization framework raises the burden on utilities that have tailored/enhanced software, which the utility believes changes the functional nature of software from the functionalization contained in BPA's general framework. *Id.*

PSE raised the following specific questions:

- How the general framework presented in 6.1.1 of the ASC Draft Report would be implemented in the ASC.
- Can a utility use the general framework as an alternative to Direct Analysis?
- If a utility were to use the general framework, would the utility need to provide additional documentation regarding the use of the functionalization method identified in the general framework, particularly if the general framework would functionalize the software systems to something other than Distribution?
- Does the 1% threshold apply for any asset in Account 303? If so, is the resulting functionalization Labor?
- How would the threshold work if a utility has software assets in both common and electric Accounts 303?

Id. at 5-6.

PSE requested that the listing of software assets as included in its April 2009 ASC Draft Report at pages 35-40 be described as preliminary and that the topic of software functionalization be addressed more fully in a workshop contemporaneous with the other discussions/workshops anticipated in the ASC Draft Report. *Id.*

BPA believes software systems should be functionalized to follow the operation they support or the labor expense that the software replaced.

Analysis of Positions:

Section VIII.B, Table 1 of the 2008 ASCM provides that functionalization of Account 303 is Direct Analysis with an option to Distribution/Other. *See* 18 C.F.R. § 301.9, Table 1.

The 2008 ASCM states as follows:

Functionalization of each Account included in a utility's ASC must be according to the functionalization prescribed in Table 1, *Functionalization and Escalation Codes*. 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 § 301.9(a).

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:

Bonneville 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 § 301.9(d)(2).

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 provided by the utilities was generally nothing more than a generic statement that the software supported all of the utility's business functions. As a result, BPA was unable to determine whether the proffered functionalization treatment was appropriate. For example, some of the statements included by utilities to support functionalization of a specific piece of software with the PTD ratio used terms like "supports all functions of the company"⁵ or "supports all areas of the company."⁶ These catchall phrases, if

⁵ *See* Data Responses ASC-09 PA-BPA-12 and ASC-09-PS-BPA-6

⁶ *See* Data Response ASC-09-PS-BPA-12, and Excel file E302, 303, E399, Common 2006 filed.xls, DATA for ASC tab, column W.

allowed to serve as evidence of a Direct Analysis, could be used to support functionalizing the entire ASC filing with the PTD ratio. Such generic statements do not constitute a valid Direct Analysis under the ASCM.

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 comprise a typical utility's software assets is a very time-consuming process. 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 development of retail rates that incorporate most, if not all, Production, Transmission, and Distribution costs of the utility. State commissions are generally less concerned if, for example, call center software, which is clearly related to the Distribution function, and generation maintenance software, which is clearly related to the Production function, are both functionalized with the PTD or Labor ratio. For most utilities, software represents a small percentage of net plant in service, between 1% and 5% for exchanging utilities. Thus, even if software assets are not correctly functionalized, it is unlikely that it would affect retail rates.

However, a utility's ASC may include only allowable production and transmission costs as determined in accordance with the 2008 ASCM. Using the PTD or Labor ratio for all software costs may result in the inclusion of inappropriate costs in a utility's ASC. For example, the costs of certain software packages are very large relative to others in Account 303, which could cause simple ratios to functionalize a large portion of distribution-related software into ASC. For example, in PAC's Response to BPA Data Request No. 12, PAC 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.

This and other examples BPA found in the utilities' ASCs caused BPA to be concerned that, without more documentation and support, utilities could potentially include tens of millions of dollars of inappropriate costs in their ASCs through Account 303.

The 2008 ASCM is clear that if a utility does not provide, or chooses not to provide, sufficient detail so that BPA can determine the functional nature of Account 303 software assets, the software assets will be functionalized to Distribution/Other. *See* 2008 ASCM, Section VIII.B,

Table 1; *see* 18 C.F.R. § 301, Table 1. Rather than simply functionalize all of the items in Account 303 to Distribution/Other (which would be allowed under the ASCM), BPA decided to develop a general framework for evaluating software in Account 303. This framework served as a reference point as BPA considered the functionalization for the various software assets. BPA took these extra steps to ensure that software costs would 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, BPA's generic software asset approach should help utilities that do not want to undertake the task of functionalizing all of the items in Account 303. The existence of BPA's general framework will not eliminate an exchanging utility's right to support a different functionalization through its own Direct Analysis.

In fact, for two utilities, Idaho and NWE, BPA reviewed the list of software assets provided by utilities and functionalized the software based on the general framework and BPA's understanding and knowledge of the software. The BPA functionalization was then sent to the utilities for review. BPA discussed its preliminary decisions with the utility and made adjustments based on discussions with the utility about the nature and use of the software assets.

PSE's response to BPA's ASC Draft Report raised two general concerns regarding the use of BPA's general software functionalization framework. *See* PSE Comments on BPA ASC Report, pg. 5-6, filed May 11, 2009.

First, PSE raised general concerns regarding the manner in which BPA developed the general software functionalization framework and whether BPA's framework "adequately/accurately reflects PSE's software which may appear to have the same/similar name." *Id.* at 5. Specifically, PSE stated that BPA attempted "to associate certain software assets by name with similarly named commercially available software assets." *Id.* at 5.

The functionalization rules of the 2008 ASCM state that:

The Utility must submit with its Appendix 1 any and all work papers, documents, or other materials that demonstrate that the functionalization under its Direct Analysis assigns costs based upon the actual and/or intended functional use of those items. Failure to submit such documentation could result in the entire Account being functionalized to Distribution/Other, or Production, or Transmission, as appropriate.

2008 ASCM, Section VIII.A.2; 18 C.F.R. § 301.9(c)(2).

In most cases, utilities, including PSE, did not perform a Direct Analysis on individual software assets. Instead, they relied on simple ratios to functionalize all software assets as a group without explaining why the ratios were appropriate. BPA functionalized the individual software assets *based on the information provided by the utility* to BPA in response to data requests and Issue Lists. The information provided by PSE and other utilities was primarily a simple listing of the software assets from an internal database and associated cost data. In many cases, the software asset list did not even contain the commercial name of the software asset.

Examples of items contained on software asset lists submitted to BPA by Idaho and NWE that were reviewed under a Direct Analysis include the Phoenix Project – Phase 1, Feeder Fielding Project, and Wire Vision Implementation (*see* IPC’s Response to BPA Data Request 5, filed November 20, 2008); and IT Infrastructure Software, GUIXT Graphical Interface, and IT MTU Info Mobile Data Comp (*see* NWE’s Response to BPA Data Request 5, filed February 20, 2009). Other than cost data associated with the software asset, utilities generally did not provide any other information about the use or function of these programs. BPA functionalized as many as 200 software assets for a utility based on nothing more than information similar to that shown in the previous example.

PSE argues that BPA’s functionalization is inappropriate because BPA has used the name of the software in Account 303 as the means of functionalizing the respective programs. *See* PSE Comments on BPA ASC Report, pg. 5, filed May 11, 2009. PSE is concerned that this approach may have misidentified some items in Account 303 because the name of PSE’s software does not always serve the same function as commercial software with the same or similar name. *Id.*

PSE’s concerns are misplaced. First, to be clear, it is the *utility’s* responsibility to submit to BPA sufficient documentation and information to support a Direct Analysis. *See* 2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2) (“*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.*”) (emphasis added). As such, BPA could have functionalized all of the software assets in Account 303 to Distribution/Other because the information supplied by the utilities did not support the utilities’ suggested functionalizations, generally PTD. However, because this ASC Draft Report concerns one of the first ASCs to be determined under the 2008 ASCM, BPA decided to allow certain software costs into ASC, provided that BPA could confirm that the software was generally used in the utility industry for resource-related activities. BPA believed that the software name was an appropriate identifier because review of corporate information provided by the software developer can generally result in identification of the proper functionalization of a software asset.

To the extent that PSE believes BPA misidentified any software assets, PSE had opportunities to supply BPA with additional information through its Direct Analysis or in response to BPA’s data requests. For example, PSE could have provided the commercial name of the software and the primary users or function of the software, which would have greatly increased BPA’s understanding of the software’s use and purpose. Because PSE did not supply this information, BPA believes that Account 303 has been functionalized in a manner that is consistent with the evidence that was provided to BPA during the ASC Review Process.

PSE also states that commercial software is often significantly modified and enhanced and that such modifications “may necessitate a change in the functionalization used in the ASC.” *See* PSE Comments on BPA ASC Draft Report, pg. 5, filed May 11, 2009. Additionally, PSE argues that BPA’s software framework “predetermines a software asset’s functionality and, by its existence raises the burden on the utility to accomplish a change to the tailored/enhanced software different from that shown in the general framework.” *Id.* In response, BPA replies that if PSE has modified/tailored/enhanced a software asset such that its function is different than

what is shown in BPA's general software functionalization framework, PSE may describe the modifications in its ASC filing or in response to BPA's data requests or issue lists.

PSE suggested that because of its concerns, BPA should state that the general software functionalization framework is preliminary and be the subject of future ASC workshops. *Id.* at 5. BPA agrees. The general framework for software assets described below will not be considered precedential for future ASC filings. BPA intends to revisit the software descriptions and functionalizations provided below in a workshop on its general software functionalization framework in September 2009.

PSE's response to BPA's ASC Draft Report also raised seven specific questions concerning the use of BPA's general software functionalization framework. *Id.* PSE's first question asked if the general framework is an alternative to Direct Analysis. *Id.* In response, BPA notes that the general software functionalization template is not a substitute for a valid Direct Analysis. Rather, the template reflects BPA's understanding of the functional nature of the categories of software assets that are in general use by electric utilities.

PSE's second question also ask BPA to clarify that if a utility were to use BPA's general framework, "would the utility need to provide additional documentation regarding the use of the functionalization method identified in the general framework, particularly if the general framework would functionalize the software systems to something other than Distribution?" *Id.* at 6. In response, BPA clarifies that the utility must provide sufficient documentation with its ASC filing so that BPA can determine that a software asset is correctly identified and functionalized. For example, the utility cannot simply provide a list containing software assets such as Wire Vision Implementation, Silicon Energy Software, Envision Management System Software and state that they are ERP or Wholesale Billing and Settlement and functionalize them via the Labor ratio. The utility would need to supply the software name and a brief description of its use. BPA will work with the utilities to determine the required information for software assets in the September 2009 ASC workshop.

PSE's third question asked if "the 1% threshold appl[ies] for any asset in Account 303? If so, is the resulting functionalization Labor? How would the threshold work if a utility has software assets in both common and electric Accounts 303?" *Id.* at 6. BPA believes that this issue is best left to the September 2009 ASC Workshop on Account 303 software assets.

PSE's fourth question asked if the "reference to IPC at page 32 of the ASC Draft Report intended to be a reference to PSE?" *Id.* In response, BPA clarifies that it made a typographical error in referencing IPC. The correct reference should have been to PSE.

PSE's fifth question concerned a sentence on page 34 of PSE's ASC Draft Report that PSE thought was unclear and asked that it be clarified in future ASC workshops. *Id.* BPA will discuss the meaning and intent of the referenced sentence in a future ASC workshop.

PSE's sixth question asked if the following interrogatory sentence was intended to be a declaratory sentence:

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?

Id. at 6. PSE is correct. The question mark at the end of the sentence should be a period and the above-referenced sentence should be declaratory.

PSE's seventh and final question asked if the determination in Section 6.1.4 requires the balance sheet accounts to be functionalized in the same manner as the related income statement accounts. *Id.* at 6. In response, BPA does intend to functionalize regulatory assets and liabilities that are allowed in rate base for ASC purposes in a manner consistent with the rules and procedures of the 2008 ASCM.

BPA will schedule workshops after publication of the FY 2009 and FY 2010-2011 ASC Reports to discuss the general software functionalization framework for Account 303. Utilities will have an opportunity to fully explore and analyze the general software functionalization framework, suggest changes and modifications to software definitions and functionalizations and the relationship between the general software functionalization framework and the documentation requirements for a Direct Analysis for Account 303.

Decision:

BPA will adopt a common functionalization for similar types of software assets in the FY 2009 ASC Final Reports if the Direct Analysis supplied by the utility can not be substantiated by BPA. Following completion of the FY 2009 ASC Final Reports, BPA intends to conduct workshops with interested parties to more fully explore BPA's general software functionalization framework, software definitions and functionalizations, and the documentation requirements for a Direct Analysis.

System Categories and Related Functionalization

Below is a list that describes and categorizes the bulk of utility software, including the accounts associated with utility software and the functionalization BPA will use for each type of software. The following categorization reflects BPA's theory of software asset functionalization. In general, BPA believes that the primary purpose of utility software assets is to reduce labor cost, improve efficiency and provide better access to information and, therefore, software assets should be functionalized based on where the labor cost savings or efficiency improvements occur, or the area of the utility organization the software is primarily used. For example, CIS and call center software both reduce the cost of operating a call center and increase the efficiency and quality of utilities' interactions with their customers. Utility customer information and call center labor is normally recorded in Accounts 903 - 912, which are functionalized to Distribution/Other in the 2008 ASCM. BPA functionalized CIS and call center software assets to Distribution/Other. Automated meter reading software assets reduce the labor expense associated with reading utility meters and improve the accuracy and timeliness of customer data. Utility meter reading and related expenses are normally recorded in Accounts 901 – 903. BPA functionalized automated meter reading assets to Distribution/Other.

- **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 that manage the residential and small commercial customer information, bill calculation and presentation, and payment processes. Distribution - Accounts 903-912.
 - *Industrial Billing* – systems that manage the large industrial customers, bill calculation and presentation processes. Distribution - Accounts 903-912.
 - *Energy and Demand Management Systems* – systems and software that design, administer, manage, track, and report on the utility’s portfolio of Demand-Side Management (DSM) and Energy Efficiency (EE) programs. Production.
 - *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 903-912.
 - *Customer Relationship Management (CRM) System* – systems that manage information about the utility’s customers. Distribution - Accounts 903-912.
 - *Advanced Meter Infrastructure (AIM) System* – systems that measure, collect and analyze energy usage from advanced devices through various communication media on request or on a pre-defined schedule. It also includes 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 that 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 applications as employee benefits, human resources, training, time entry, payroll, and compensation management systems.
 - *Payroll System* – systems that calculate pay for employees and produces payments (checks or direct deposits). LABOR – Account 920.
 - *Human Resources* – systems that maintain employee information required to pay employees and maintain individual employee personal and work-related information. LABOR – Account 920.

- *Training System* – systems that maintain information about all employee training requirements, schedules, certifications, courses, and update/recertification requirements. LABOR – Account 920.
 - *Time Entry System* – systems that capture actual time and attendance information for employees. LABOR – Account 920.
 - *Compensation Management System* – systems that 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 applications 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 that 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 that 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 applications 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 that 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 that 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 that manage the debt owned by the utility including debt instruments, notes, bonds, commercial paper, and stocks. PTDG.

- *Budget Preparation* – systems that provide 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 that automate the continuing property records of the utility. PTDG.
 - *Work Order Accounting* – systems that 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.
 - *Cost Accounting* – systems that provide a standard cost accounting capability for both capital projects and operations and maintenance activities. LABOR – Account 920.
- ***Management Information*** – this category includes such applications as executive information, key performance indicators, and data warehouse systems.
- *Executive Information* – systems that 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 that capture both internal and external information related to key business indicators for senior management. LABOR – Account 920.
 - *Business Intelligence* – systems that provide historical, current, and predictive information about the operations of the utility. LABOR – Account 920.
- ***Market Operations and Trading*** – this category includes such applications 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.
 - *Transmission Rights and Access* – systems that maintain data on the utility’s transmission line rights and access policies. Transmission.
 - *Transmission Pricing and Billing* – systems that, similar to the *Customer Information System* above, maintain information on transmission system customers, bill calculation and presentation, and payment processes. Transmission.

- *Wholesale Billing and Settlement* – systems that, 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 that 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.
- ***Planning Models*** – this category includes such applications 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 applications as materials management, purchasing, warehouse management, inventory, fleet management, fuel management, and alternative energy supply systems.
- *Materials Management* – systems that 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.
 - *Purchasing* – systems that 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 that 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 that 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 that maintain information on fuel management for the utility’s fleet operations. Distribution - Account 933.
 - *Alternative Energy Supply* – systems that manage the availability of energy supply from alternative sources which may be outside the control of the utility. Production.
- ***System Operations*** – this category includes such applications 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 that 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.
 - *Generation Operations and Management* – systems used to maximize plant operating income by optimizing output and heat rates and by reducing maintenance expenses. Production.
 - *Substation Operations and Management* – systems used to monitor the operation of substations to maximize performance and ensure safe equipment operations. TD.
 - *Supervisory Control And Data Acquisition (SCADA)* – systems that 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.
 - *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.
 - *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.
- **Work Management** – this category includes such applications 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.
 - *Work Order* – systems that manage longer-duration work, either capital or operations and maintenance frequently performed by multi-person crews. Distribution.
 - *Service Order* – systems that manage the short-interval work of the utility typically performed by service crews. The system would include work scheduling, tracking, and order completion. Distribution.
 - *Outage Management* – systems that 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; calculate estimates of restoration times; provides information on crews needed and assisting in restoration; and predict the location of fuse or breaker that opened upon failure. Representative vendor solutions include: ABB, GE Energy, Intergraph, Oracle Utilities, and Trimble. Distribution.
- **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: Account 182.3, Other Regulatory Assets; Account 254, Other Regulatory Liabilities

Statement of Issue:

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

Statement of Facts:

The IOUs functionalized similar regulatory assets, such as Deferred Pension, Pay and other labor-related Assets and Liabilities, in a variety of ways. PGE, Avista and NW used the Labor ratio. IPC used the PTD ratio. PSE and PAC functionalized these assets to Distribution/Other. The issue is whether BPA should maintain consistency in the functionalization of Deferred Pension, Pay and other labor-related Assets and Liabilities among utilities when calculating ASC.

Summary of Parties' Positions:

In PSE's February 25, 2009, response to BPA's Issue List, PSE 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.

PSE Generic Issue List Responses, pg. 2, filed February 25, 2009.

Avista, Idaho Power, NorthWestern, PAC 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." See IOU Generic Issue List Responses, pg. 1, filed February 25, 2009.

BPA believes BPA should use consistent decision criteria for common types of Regulatory Assets and Liabilities.

Analysis of Positions:

The 2008 ASCM ROD states that:

[t]he 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.”⁷ In the ASCM ROD, the WUTC noted 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.” 2008 ASCM ROD at 149-150.

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.⁸

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 tax 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 while all companies are subject to GAAP, differences may occur because of recognition of cost for companies subject to price or rate regulation.⁹

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.

⁷ See §11.03[2], G. Hahne and G. Aliff, *Public Utility Accounting*, pages 11-5 (Mathew Binder 2005).

⁸ See §11.03[2], G. Hahne and G. Aliff, *Public Utility Accounting*, pages 11-5 (Mathew Binder 2005).

⁹ *Id.*

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/Other.

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.

Decision:

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

6.1.3. 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:

Table 1 of the 2008 ASCM requires a utility to perform a Direct Analysis 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). Assets in Accounts 182.3 and 186 are often offset by corresponding liabilities in Accounts 253 or 254. Because separate Direct Analyses are performed on each account, it is possible that an asset in one account could be functionalized one way, and then a corresponding liability functionalized another. BPA believes that 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 Parties' Positions:

Avista, IPC, NorthWestern, PAC and PGE's February 25, 2009, joint response to BPA's Issue Lists stated that "[t]he IOUs agree that BPA should require that accounts that have a corresponding asset and liability account have the same functionalization." IOU Generic Issue List Responses, pg 1, filed February 25, 2009.

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.

PSE Generic Issue List Responses, pg. 3, filed February 25, 2009.

BPA believes that it should use consistent decision criteria for common types of Regulatory Assets and Liabilities.

Analysis of Positions:

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

Decision:

BPA will use consistent decision criteria for common types of Regulatory Assets and Liabilities. 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. 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:

Utilities functionalized Regulatory Assets and Liabilities that are not included in the utility's jurisdictional rate base in various ways. Some items in these accounts are included in working

capital for ratemaking purposes. BPA is concerned 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, PAC and PSE functionalized all Other Regulatory Assets and Liabilities that are not in their jurisdictional rate base to Distribution/Other. IPC, PGE, and Avista, however, functionalized these same types of costs (i.e., not included in jurisdictional rate base) based on the functional nature of the item.

Summary of Parties' Positions:

Avista, IPC, NorthWestern, PAC and PGE's February 25, 2009, Response to BPA's Issue List stated that "[t]here 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." IOU Generic Issue List Responses, pg. 3, filed February 25, 2009.

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.

PSE Generic Issue List Responses, pg. 7, filed February 25, 2009.

BPA believes that Regulatory Assets and Liabilities should be included in a utility's jurisdictional rate base in order to be included in rate base for ASC purposes.

Analysis of Positions:

The 2008 ASCM ROD states as follows:

[t]he 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).

As noted before in the discussion in Section 6.1.2, regulatory assets and liabilities exist in the balance sheets of electric utilities only because of the effects of regulation. 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 will eventually be moved from the balance sheet to the income statement through recognition of the revenue or expense. They are only recorded 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.

Decision:

Regulatory Assets and Liabilities must be included in a utility's jurisdictional rate base in order to be included in rate base for ASC purposes. BPA will not change the functionalization rules of an income statement account as the result of a Direct Analysis of a Regulatory Asset or Liability.

6.1.5. 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:

PAC reduced the amount of its purchased power expense and sales for resale revenue by book-outs and trading adjustments. "Book-outs" are a netting of simultaneous buy and sell

transactions of power between two utilities, where only the net or actual power transferred is shown.

The inclusion of book-outs and trading adjustments in purchased power and sales for resale accounts affects the price spread calculation that BPA uses to calculate a utility's Exchange Period ASC.

In general, for SEC filings and Annual Reports, utilities and other entities in energy marketing report only the net amount of simultaneous buy and sell transactions of power. However, for FERC Electronic Quarterly Reports (EQRs), utilities must show all of the individual transactions and label them as booked-out or energy delivered. For FERC Form 1 filings, utilities are required to show the total amount of Purchased Power and Sales for Resale between utilities. Utilities are not required to show the amount of booked-out transactions on the FERC Form 1. PAC has several line items in Accounts 555, Purchased Power and 447, Sales for Resale, labeled "book-outs", while other utilities do not. The amount of these book-outs is significant; PAC's book-outs exceed \$1 billion.

Summary of Parties' Positions:

Avista, IPC, NorthWestern, PAC and PGE's February 25, 2009, joint response to BPA's Issue List stated that "[t]he 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." IOU Generic Issue List Responses, pg. 2, filed February 25, 2009.

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.

PSE Generic Issue List Responses, pg. 4, filed February 25, 2009.

BPA believes utilities should not adjust their purchase power and sales for resale for the effects of book-outs and trading adjustments.

Analysis of Positions:

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

Decision:

Utilities shall not adjust their purchase power and sales for resale for the effects of book-outs 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 the utilities submitted documentation or copies of firm natural gas supply contracts to support their projected natural gas prices.

PAC's Lakeside Capital is a gas-fired generating plant that came on-line during CY 2007. When PAC submitted its 2009 ASC filing in October 2008, it used the actual fuel price for Lakeside Capital contained in its 2007 FERC Form 1. PAC used the same fuel price in its FY 2010-11 ASC filing as well.

Summary of Parties' Positions:

Avista, IPC, NorthWestern, PAC and NWE'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.

IOU Generic Issue List Responses, pg. 2, filed February 25, 2009.

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.

PSE Generic Issue List Responses, pg. 5, filed February 25, 2009.

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

[t]he 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.

OPUC Generic Issue List Response, pg. 1, filed March 3, 2009.

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 Generic Issue List Response, pg. 1, filed March 3, 2009.

The OPUC's March 10, 2009, response to issues reiterated the foregoing 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. OPUC Generic Issue List Response, pg. 1, filed March 10, 2009.

Snohomish supports a common natural gas 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 a BPA staff projection. SNOFUD Issue List Response to BPA, Issue 12.

In separate comments on the ASC ASC Draft Reports filed May 11, 2009, two intervenors, OPUC and PGE, disagreed with BPA's draft decision to accept the utilities' as-filed projected natural gas prices for new resources for the FY 2009 ASC filings. OPUC urges BPA to use a common natural gas price forecast for determining utilities' FY 2009 ASC. *See* OPUC Comments at 2. OPUC further contends that BPA's analysis is not consistent with the Draft Decision:

BPA's analysis in Puget Sound Energy's FY 2009 ASC Draft Report regarding use of a common natural gas price forecast, and its decision regarding this issue in its FY 2010-2011 ASC Draft Report, reflect that BPA agrees with the OPUC and other parties that it is generally appropriate to use a third-party supplied natural gas price forecast to determine costs associated with new natural gas-fired plant additions. Notwithstanding, BPA proposes to use the gas price forecasts supplied by the utilities in their initial ASC filings to determine FY 2009 ASCs because it may be necessary to do "large true-ups" if a third-party gas price forecast is used. BPA's reasoning underscores why it is appropriate to use a third-party forecast, rather than the forecast supplied by individual utilities. Presumably, a large true-up would only be needed if the utility-supplied forecast is significantly different than forecast provided by a third party. The fact that there may be a significant difference between a utility-supplied forecast and one obtained from a third-party is precisely the reason that BPA should use the forecast supplied by the third-party. Furthermore, BPA's concern regarding the need for a true-up appears to be misplaced. BPA has proposed numerous adjustments to the utilities' ASC filings. FY 2009 ASC Draft Report for PSE at 48-49.

See OPUC Comments on FY 2009 ASC Draft Report for PSE, at 2, May 11, 2009.

In PGE's comments to its ASC Draft Report, it stated that it:

"...believes that BPA should use consistent natural gas price forecasts (basis and transmission adjusted) for all filing utilities for the 2009 ASC Forecast Model as well as for the 2010 - 2011 ASC Forecast Model that is concurrent with the forecast BPA used in its WP-07 Supplemental Rate Proceeding. For the 2009 ASC Forecast Model BPA reasons that the utility-supplied natural gas 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." PGE disagrees with this reasoning because it potentially allows for a significant difference in gas prices between the filing utilities. PGE notes that an exception to the use of a consistent natural gas price forecast for all exchanging utilities would be an existing contract that is used to justify a price for a new resource."

See PGE Comments on FY 2009 and FY 2010-2011 ASC Draft Reports, at 2, May 11, 2009.

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 suggested that an independent third party should supply the natural gas forecast.

The parties also supported the principle that the natural gas price forecast should include adjustments for basis or hub differences, and 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 should not preclude a utility from using its own forecast.

BPA stated in the ASC Draft Report 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.

Based on the comments filed by PGE and OPUC on May 11, 2009, to the ASC Draft Reports, however, BPA reviewed the natural gas price forecasts included in the FY 2009 ASC filings. Among the utilities, the price differential exceeded \$2.00/MMbtu for new resource additions included in the ASC filings. BPA agrees with PGE that this constitutes a sufficiently significant difference in gas prices to warrant using a common gas price forecast.

BPA is unable to recommend a third party natural gas price forecast due to the lack of such a forecast that is publicly available to all exchanging utilities and intervenors. However, following the review of the range in natural gas price forecasts, BPA agrees that the forecasts need to be consistent between utilities. Therefore, BPA will use a common natural gas price forecast from BPA rate filing associated with the ASC filing in effect during that rate period. For the FY 2009 ASCs, that rate filing is BPA's 2007 Supplemental Wholesale Power Rate Case Final Proposal.

With specific reference to a recently acquired PAC resource, Lakeside Capital is a gas-fired generating plant that came on-line during CY 2007, which is after the Base Period. When PAC submitted its 2009 ASC filing in October 2008, it used the actual fuel price for Lakeside Capital contained in its 2007 FERC Form 1. PAC used the same fuel price in its FY 2010-11 ASC filing as well. BPA compared this fuel price to the fuel prices paid at PAC's other gas-fired plants located in Utah, and found the Lakeside Capital fuel price to be similar to the other Utah plants' fuel prices. BPA agrees with PAC that the actual fuel price paid is appropriate for its Lakeside Capital new resource addition.

Decision:

BPA will use the Final Supplemental Proposal natural gas price forecast for new resources for FY 2009 ASC filings. For Lakeside Capital, BPA will use the actual cost of natural gas for 2007 as found in PACs 2007 FERC Form 1.

6.1.7. ASC Forecast Model – Capacity Factors

Statement of Issue:

Whether BPA should 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:

When submitting a new resource addition for consideration in the ASC Review Process, utilities must submit a projected capacity factor for the new resource. The submitted projected capacity factors, however, varied 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.

PSE Generic Issue List Responses, pg. 6, filed February 25, 2009.

Avista, IPC, NorthWestern, PAC and 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, if a utility chooses to use capacity factor outside the above range for a new resource, the utility will have to supply complete justification and documentation for use of such a capacity factor.

IOU Generic Issue List Responses, pg. 3, filed February 25, 2009.

After discussing this issue with the parties, BPA has decided to use the capacity factors submitted by the utilities for determining the capacity factors for new resources coming online during the FY 2009 ASC Exchange Period. This decision to use the utility's filed capacity factors, however, will be subject to further review in future ASC Review Processes. BPA is deferring this decision so that it can devote more time to this complex issue. Developing representative projected capacity factors for new resources is not a trivial exercise. For new natural gas-fired resources, projected stream flows, electric market prices, natural gas prices and heat rates must be analyzed before representative capacity factors can be developed. For projected wind resources the Pacific Northwest region is just beginning a major expansion of a resource with little historical data to use as a benchmark for developing representative capacity factors. BPA believes that this issue should be deferred to future ASC filings to develop more robust estimates of projected capacity factors for new resources.

BPA's decision to use the utilities' submitted capacity factors is also influenced by the fact that several utilities submitted revised capacity factors which reduced 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.

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. The issue will be revisited in future ASC filings.

7. FY 2009 ASC

Including all changes made to PAC's Appendix 1 filing, BPA decreased PAC's CY 2006 ASC by \$ 0.28/MWh and increased PAC's FY 2009 ASC by \$2.18/MWh. PAC's ASC for FY 2009 is \$51.94/MWh not including new resource additions, if applicable, coming on-line during the exchange period.

8. REVIEW SUMMARY

The FY 2009 ASC Review Processes are complete with the publication of the ASC Final Reports. BPA solicited and reviewed comments on the ASC Draft Reports of all other exchanging utilities for FY 2009. After review of such comments, BPA completed final ASC determinations used to calculate REP benefits for each exchanging utility for FY 2009.

BPA has resolved the issues set forth in Sections 4, 5, and 6 of this report in accordance with the 2008 ASCM and with generally accepted accounting principles. BPA believes the information and analysis contained herein properly establish the Average System Cost of PAC for FY 2009.

This ASC Final Report is BPA's determination of PACs FY 2009 ASC based on the information and data provided by PAC, including comments in response to the ASC Draft Report, and based on the professional review, evaluation, and judgment of BPA's REP staff.

9. ADMINISTRATOR'S APPROVAL

I have examined PACs 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 PACs ASC.

Issued in Portland, Oregon this 19th day of June, 2009.

Acting For /s/ Allen L. Burns
Administrator

