FY 2009 AVERAGE SYSTEM COST FINAL REPORT

PUGET SOUND ENERGY

June 2009

FY 2009 AVERAGE SYSTEM COST

FINAL REPORT

FOR

Puget Sound Energy

Docket Number: ASC-09-PS-01
Effective Date: October 1, 2008

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

June 19, 2009

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TABLE OF CONTENTS

Section **Page**

List of Tables

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1. FILING DATA

Utility: **Puget Sound Energy**
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Bellevue WA 98009-9734
http://www.pse.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 PSE'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 Puget Sound Energy on October 1, 2008 (including errata, if applicable), and (2) any adjustments made by BPA as a result of its own independent review of Puget Sound Energy's ASC and/or comments submitted by the 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 Final Report
Production Cost	$1,212,545,515	$1,204,252,674
Transmission Cost	$85,711,902	$86,006,584
(Less) NLSL Costs	$0	$0
Contract System Cost (CSC)	$1,298,257,417	$1,290,259,258
Total Retail Load (MWh)	21,091,533	21,091,533
(Less) NLSL	0	0
Total Retail Load (Net of NLSL)	21,091,533	21,091,533
Distribution Losses	1,052,467	1,052,467
Contract System Load (CSL)	22,144,000	22,144,000
CY 2006 Base Period ASC ($/MWh) (CSC / CSL)	**58.63**	**58.27**

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	**Group 1**	**N/A**	**N/A**	**N/A**
Expected On-Line Date	02/01/07			
Delta*	3.41			

Final Report FY 2009 Exchange Period ASC				
Resource	**Group 1**	**N/A**	**N/A**	**N/A**
Expected On-Line Date	02/01/07			
Delta*	3.01			

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

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

As-Filed FY 2009 Exchange Period ASC				
Resource	**Group 2**	**N/A**	**N/A**	**N/A**
Expected On-Line Date	04/01/09			
Delta*	3.49			

Final Report FY 2009 Exchange Period ASC				
Resource	**Group 2**	**N/A**	**N/A**	**N/A**
Expected On-Line Date	04/01/09			
Delta*	3.04			

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

2.3. FY 2009 Exchange Period ASC for the 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 the New Resource Additions

Date	October 1, 2008 As-Filed	June 19, 2009 Final Report
FY 2009	63.26	62.79

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)(l) 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 PSE. PSE 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 PSE 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 Puget Sound Energy's ASC. Puget Sound Energy 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 Puget Sound Energy'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: "Customer Information System (CLX, MDW, etc)"

Statement of Issue:

What is the correct functionalization of Account 303 – "Customer Information System (CLX, MDW, etc.)"?

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 its initial filing, PSE functionalized the Customer Information System (CLX, MDW, *etc*…) programs in Account 303 using the Production, Transmission, Distribution (PTD) ratio. In BPA's January 28, 2009, Issues List, BPA explained that PSE's documentation did not sufficiently support PSE's use of the PTD ratio for the Direct Analysis for the items Account 303. *See* BPA Issue List to PSE at 1.

In response, PSE pointed to its response to ASC-09-PSE Data Request 06. In that response, PSE stated Customer Information System (CLX, MDW, *etc*) infrastructure supports all areas of its business and so this group of assets should be functionalized using the PTD ratio. (*See* PSE Response to BPA Issue List at 1; *also* PSE Responses to BPA Data Request No. 06. In addition, PSE noted that a similar functionalization methodology is used to functionalize all assets in Account 303 across the production, transmission and distribution functions for ratemaking

purposes. *Id.* Also, PSE noted that in previous ASC filings, assets in this account were also functionalized using the PTD ratio. *Id.*

PSE further stated that the software and technology assets identified as "Customer Information System (CLX, MDW, etc)" represent upgrades and enhancements to specific components of PSE's energy information infrastructure. *Id.* Included in this enterprise wide energy information infrastructure are:

1. ConsumerLinx (CLX) assets - the Company's customer information system,
2. Meter Data Warehouse (MDW) assets - the primary repository for energy data,
3. Customer Data Analysis and Research System (CDARS) database assets - the primary source for normalized energy data that is used corporate wide for analytical and reporting purposes, and
4. Metering and meter reading assets including automated meter reading (AMR) related assets - the primary source of energy related data.

(*Id.*)

In the ASC Draft Reports, BPA functionalized most of the software assets in Account 303, Customer Information Systems, to Distribution/Other. The only program not functionalized to Distribution/Other was PSE's EYRETEL Recording SW-For VOIP Phone System. For this one software asset, BPA used the Labor ratio.

In its Comments on the ASC Draft Report, PSE argued that the CIS system EYRETEL Recording SW - For VOIP Phone System (EYRETEL) and Computer Telephony Interface Software/Development (CTI) both "automate[] PSE's office operations in a manner that supports the PSE's production, transmission and distribution functions equally." PSE Comments on BPA ASC Report, pg. 2. PSE concludes that to be consistent, BPA should functionalize these systems in the same way. *Id.*

Summary of Parties' Positions:

PSE argues that the Customer Information System (CLX, MDW, *etc*) should be functionalized using the PTD ratio because these systems supports all areas of the Company.

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/Other. *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 initial ASC filings revealed that most utilities used either the PTD or Labor ratio to functionalize a majority of Account 303 software. However, the utilities used inconsistent functionalization methodologies and rationales for supporting their respective Direct Analysis. In almost all instances, the utilities justified their functionalization by simply claiming that the specific piece of software "supports all functions of the company"[1] or "supports all areas of the company."[2] These catchall phrases, if accepted as support for a Direct Analysis, could be used by the utilities to functionalize the entire ASC filing using the PTD ratio. 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 is the first ASC to be formally developed under the 2008 ASSCM, 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. 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 common utility 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.

In the instant case, Customer Information Systems (CIS) includes costs of programs that manage retail customer information, bill calculation and presentation, and payment processes. In the description of the software provided in the response to ASC-09-PSE Data Request 06, the software appears to be primarily used in the retail part of PSE's business. PSE Responses to BPA Data Request No. 06. PSE's says PTD is the appropriate ratio for this account because CIS "supports all functions of the company." *Id.* 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 using the PTD ratio. Without supporting documentation or

[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.

analysis, a blanket statement that the program supports all function is insufficient to meet the requirements of a Direct Analysis under the ASCM. As such, PSE 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." 2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2). Consequently, because PSE has not provided sufficient information to support its PTD functionalization, the costs associated with CIS must be functionalized to Distribution/Other.

Moreover, based on the information that was provided, BPA believes the proper functionalization of CIS is to Distribution/Other. The CIS software programs appear to be used primarily for the billing process of the retail side of PSE's business. Even though the software is used to bill the expenses incurred by the 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. BPA believes that 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 CIS software is Accounts 901-910.

PSE also noted in its data response that a similar functionalization methodology is used to functionalize all assets in Account 303 for ratemaking purposes. PSE Responses to BPA Data Request No. 06. However, the state regulatory ratemaking treatment of an asset or cost does not dictate the functionalization of that item for ASC purposes. Rather, BPA is tasked with making an "independent determination of (1) the appropriateness of the inclusion of costs; [and] (2) the reasonableness of the costs included in Contract System Costs. . ." 2008 ASCM, Section III.C.; 18 C.F.R. § 301.4(c)(1). As noted above, BPA's independent analysis found that PSE's Direct Analysis had not adequately supported its PTD functionalization for the CIS software. In addition, BPA's own analysis indicates that the CIS is most closely aligned with Distribution related functions. Thus, functionalizing CIS to Distribution/Other is appropriate.

PSE argues that in previous ASC filings, assets in this account were also functionalized using the PTD ratio. PSE Responses to BPA Data Request No. 06. However, this justification is of little value. First, it is unclear which ASC PSE is referring to in this statement. Prior to the current proceedings, BPA has never performed a formal ASC review process under the 2008 ASCM. BPA assumes that PSE is referring to the FY 2009 Expedited ASCs BPA calculated for the WP-07 Supplemental Rate Case in the summer of 2008. If that is what PSE intends, then its reliance on these expedited filings is misplaced. The ASCs reviewed during the FY 2009 Expedited ASC process had not received the formal scrutiny that would accompany a normal ASC review. Indeed, at the time that these filings were reviewed, BPA's ASC Methodology had not even been approved by FERC. These ASCs served the very limited purpose of providing BPA with reasonable estimates of the utilities' ASCs for rate case purposes. The results of the Expedited

ASC process, consequently, are of no precedential weight, and will be superseded by the decisions made in this document.

In its Comment on the ASC Draft Reports, PSE also argued that the CIS system EYRETEL Recording SW - For VOIP Phone System (EYRETEL) and Computer Telephony Interface Software/Development (CTI) (discussed in Section 4.2.2 below) both "automate[] PSE's office operations in a manner that supports the PSE's production, transmission and distribution functions equally." PSE Comments on BPA ASC Draft Report, pg. 2. PSE concludes that to be consistent, BPA should functionalize these systems in the same way. *Id.*

As noted above, BPA functionalized EYRETEL using the Labor ratio in the ASC Draft Report. However, as discussed more fully in Section 4.2.2. below, CTI software was functionalized to Distribution/Other. BPA believed that these functionalizations were appropriate because the two software systems are used by utilities in different ways. CTI is a set of technologies (hardware and software) that are used by utilities to specifically integrate computers and telephone systems into retail call centers resulting in a significant improvement in the efficiency and quality of utility call center personnel. Computer telephony allows utility call center computers to control the phone system and permits information from the phone system to be displayed on a call center computer. Utility call center personnel can perform all telephone functions (make, answer, teleconference, etc) from their computer. In addition, computer telephony software also includes Caller-ID or automatic number identification (ANI) data.

Prior to receiving PSE's Comments on the ASC Draft Report, BPA believed that EYRETEL was a Voice over Internet Protocol (VoIP) system, a technology that has a much broader application within the utility than CTI. Even though PSE initially functionalized this item to Distribution, BPA believed that VoIP systems should be functionalized using the Labor ratio. VoIP systems allow utility employees to make voice calls using a broadband Internet connection instead of a regular (or analog) phone line. The savings by switching to VoIP, as opposed to operating its own Private Branch Exchange[3] can be substantial.

After receiving PSE's comment on the ASC Draft Report, though, BPA did additional research on the EYRETEL software product. Specifically, BPA reviewed several press releases and information on EYRETEL software products from company brochures and press releases. *See* Mizuho Securities Chooses Eytretel Recording Solution on NY Trading Floor, http://www.contactcenterworld.com/view/contact-center-news/Mizuho-Securities-Chooses-Eyretel-Recording-Solution-On-NY-Trading-Floor.asp (last visited June 5, 2009); CISCO SYSTEMS, INC. AND EYRETEL, CISCO SYSTEMS/EYRETEL MEDIASTORES^{IP} (2001), http://www.cisco.com/en/US/solutions/collateral/ns340/ns394/ns165/ns45/ns14/net_brochure09186a00800a32a0.pdf. This additional analysis revealed that PSE is, in fact, correct. Both

[3] A PBX is a telephone switch owned by a utility to reduce the total number of telephone lines it needs to lease from the telephone company. Without a PBX, a utility will need to lease one telephone line for every employee with a telephone. With a PBX system, the utility only needs to lease as many lines from the telephone company as the maximum number of employees that will be making outside calls at one time. This is usually around 10% of the number of extensions.

EYRETEL and CTI software serve primarily the same function, which is software support for retail related-call centers. BPA's previous belief that EYRETEL was a generic VOIP system was misplaced. Therefore, BPA will functionalize EYRETEL in the same manner as CTI. As discussed in Section 4.2.2, CTI is functionalized to Distribution/Other because it primarily is used for distribution related activities. Thus, in this ASC Final Report, BPA will change the functionalization of EYRETEL from Labor to Distribution/Other.

Decision:

Account 303 – "Customer Information System (CLX, MDW, etc.)" will be functionalized to Distribution/Other.

Table 4.2.1a: Account 303, Intangible Plant Miscellaneous: "Customer Information System (CLX, MDW, etc)"

AS-FILED BY UTILITY	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
CLx PHASE 1 S/W CUSTOMIZATION	PTD	78,603,596	27,241,206	5,277,344	46,085,046
CLx Software Phase 1 ONLY	PTD	100,177	34,718	6,726	58,733
CLX - IBM MAINFRAME SOFTWARE UPGRADE	PTD	130,806	45,333	8,782	76,691
CLX SOFTWARE PHASE 2 ONLY	PTD	8,024,767	2,781,098	538,773	4,704,896
CLx PHASE 3 S/W CUSTOMIZATION	PTD	7,417,167	2,570,526	497,979	4,348,662
CLX SOFTWARE PHASE 3 ONLY	PTD	104,211	36,116	6,997	61,099
CLx SOFTWARE PHASE 4 ONLY	PTD	4,223,315	1,463,651	283,548	2,476,117
CLx SOFTWARE PHASE 5 ONLY - PEM	PTD	960,087	332,732	64,459	562,896
CDARS SOFTWARE	PTD	2,110,079	731,278	141,668	1,237,133
CDARS SOFTWARE	PTD	106,556	36,929	7,154	62,474
PEM-UDL DATA MART SOFTWARE	PTD	83,404	28,905	5,600	48,899
CLX SOFTWARE PHASE 1 & 3 IMPROVEMENTS	PTD	2,121,028	735,073	142,403	1,243,552
EYRETEL RECORDING SW - FOR VoIP PHONE SYSTEM	DIST	27,143	-	-	27,143
CLX SOFTWARE RELEASE MANAGEMENT	PTD	804,723	278,888	54,028	471,806
CLX SOFTWARE ACCOUNTS RECEIVABLE BALANCING	PTD	359,700	124,659	24,150	210,891
NEW CLX FUNCTIONS - PURGE AND ARCHIVE	PTD	292,008	101,200	19,605	171,203
CARS/CLX CONVERSION	PTD	15,905	5,512	1,068	9,325
CLX - PRODUCT ENHANCEMENTS	PTD	4,171,290	1,445,621	280,055	2,445,615
CLX - PRODUCT ENHANCEMENTS	PTD	11,380	3,944	764	6,672
CLX - METER DATA WAREHOUSE SERVICE ORDER TRACKING	PTD	128,782	44,631	8,646	75,505

AS-FILED BY UTILITY	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
CLX - METER DATA WAREHOUSE SERVICE ORDER TRACKIN	PTD	1,415	490	95	829
CLX - ELECTRONIC BILLING SOFTWARE	PTD	402,328	139,432	27,012	235,883
CLX - ELECTRONIC BILLING SOFTWARE	PTD	28,204	9,774	1,894	16,536
CLX - NCC OPTIMIZATION SOFTWARE	PTD	339,621	117,700	22,802	199,119
CLX - NCC OPTIMIZATION SOFTWARE	PTD	1,415	490	95	829
CLX - FINANCE WORK PKG S/W	PTD	245,042	84,923	16,452	143,667
CLX - FINANCE WORK PKG S/W	PTD	16,516	5,724	1,109	9,683
CLX - RATES REPORT WORK PACKAGE SW	PTD	250,427	86,789	16,813	146,825
CLX - RATES REPORT WORK PACAKGE SW	PTD	14,096	4,885	946	8,265
CLX-ENHANCE OUTAGE MANAGEMENT	PTD	135,174	46,846	9,075	79,252
CLX METERING SOFTWARE	PTD	70,715	24,507	4,748	41,460
CLx - CUSTOMER SERVICE ENHANCEMENTS S/W	PTD	1,081,551	374,827	72,614	634,110
CLx - CUSTOMER SERVICE ENHANCEMENTS S/W	PTD	762	264	51	447
CLX-PURGE AND ARCHIVE II S/W	PTD	1,127,168	390,636	75,677	660,855
CLX OPERATIONS ENHANCEMENTS 2005 COMMON	PTD	490,947	170,145	32,962	287,840
CLX CREDIT & COLLECTION ENHANCEMENTS	PTD	888,877	308,053	59,678	521,146
CLX WEB ENABLE SELF SERVICE S/W	PTD	2,911,591	1,009,054	195,480	1,707,057
Total		117,801,972	40,816,560	7,907,250	69,078,162

Table 4.2.1b: Account 303, Intangible Plant Miscellaneous: "Customer Information System (CLX, MDW, etc)"

ADJUSTED	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
CLx PHASE 1 S/W CUSTOMIZATION	DIST	78,603,596	-	-	78,603,596
CLx Software Phase 1 ONLY	DIST	100,177	-	-	100,177
CLX - IBM MAINFRAME SOFTWARE UPGRADE	DIST	130,806	-	-	130,806
CLX SOFTWARE PHASE 2 ONLY	DIST	8,024,767	-	-	8,024,767
CLx PHASE 3 S/W CUSTOMIZATION	DIST	7,417,167	-	-	7,417,167
CLX SOFTWARE PHASE 3 ONLY	DIST	104,211	-	-	104,211
CLx SOFTWARE PHASE 4 ONLY	DIST	4,223,315	-	-	4,223,315
CLx SOFTWARE PHASE 5 ONLY - PEM	DIST	960,087	-	-	960,087
CDARS SOFTWARE	DIST	2,110,079	-	-	2,110,079
CDARS SOFTWARE	DIST	106,556	-	-	106,556
PEM-UDL DATA MART SOFTWARE	DIST	83,404	-	-	83,404
CLX SOFTWARE PHASE 1 & 3 IMPROVEMENTS	DIST	2,121,028	-	-	2,121,028
EYRETEL RECORDING SW - FOR VoIP PHONE SYSTEM	DIST	27,143	-	-	27,143
CLX SOFTWARE RELEASE MANAGEMENT	DIST	804,723	-	-	804,723
CLX SOFTWARE ACCOUNTS RECEIVABLE BALANCING	DIST	359,700	-	-	359,700
NEW CLX FUNCTIONS - PURGE AND ARCHIVE	DIST	292,008	-	-	292,008
CARS/CLX CONVERSION	DIST	15,905	-	-	15,905
CLX - PRODUCT ENHANCEMENTS	DIST	4,171,290	-	-	4,171,290
CLX - PRODUCT ENHANCEMENTS	DIST	11,380	-	-	11,380
CLX - METER DATA WAREHOUSE SERVICE ORDER TRACKING	DIST	128,782	-	-	128,782
CLX - METER DATA WAREHOUSE SERVICE ORDER TRACKIN	DIST	1,415	-	-	1,415
CLX - ELECTRONIC BILLING SOFTWARE	DIST	402,328	-	-	402,328
CLX - ELECTRONIC BILLING SOFTWARE	DIST	28,204	-	-	28,204
CLX - NCC OPTIMIZATION SOFTWARE	DIST	339,621	-	-	339,621
CLX - NCC OPTIMIZATION SOFTWARE	DIST	1,415	-	-	1,415
CLX - FINANCE WORK PKG S/W	DIST	245,042	-	-	245,042
CLX - FINANCE WORK PKG S/W	DIST	16,516	-	-	16,516
CLX - RATES REPORT WORK PACKAGE SW	DIST	250,427	-	-	250,427
CLX - RATES REPORT WORK PACAKGE SW	DIST	14,096	-	-	14,096
CLX-ENHANCE OUTAGE MANAGEMENT	DIST	135,174	-	-	135,174

CLX METERING SOFTWARE	DIST	70,715	-	-	70,715
CLx - CUSTOMER SERVICE ENHANCEMENTS S/W	DIST	1,081,551	-	-	1,081,551
CLx - CUSTOMER SERVICE ENHANCEMENTS S/W	DIST	762	-	-	762
CLX-PURGE AND ARCHIVE II S/W	DIST	1,127,168	-	-	1,127,168
CLX OPERATIONS ENHANCEMENTS 2005 COMMON	DIST	490,947	-	-	490,947
CLX CREDIT & COLLECTION ENHANCEMENTS	DIST	888,877	-	-	888,877
CLX WEB ENABLE SELF SERVICE S/W	DIST	2,911,591	-	-	2,911,591
Total		117,801,972	-	-	117,801,972

4.2.2. Account 303, Intangible Plant Miscellaneous: Computer Telephony Interface Software/Development

Statement of Issue:

Whether PSE's Direct Analysis supports its functionalization of Computer Telephony Interface Software/Development in Account 303 to PTD?

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.*

PSE functionalized the Computer Telephony Interface Software/Development item in Account 303 using the PTD ratio. The Computer Telephony Integration (CTI), also known as telephony software, is a product that enables computers to know about and control phone functions such as making and receiving voice, fax, and data calls with telephone directory services and caller identification. The integration of telephone software and computer systems is a major development in the evolution of the automated office.

As with the CIS system described above in Section 4.2.1, PSE's description of the software was not sufficiently clear to allow BPA to determine which functions of the utility the software supported. As a result, in the ASC Draft Report, BPA functionalized the costs of CTI to Distribution/Other.

In its comments on the ASC Draft Report, PSE contends that CTI software does not solely support its distribution function. PSE Comments on BPA ASC Report, pg. 2. Rather, PSE argues that CTI supports production, transmission, and distribution functions, and therefore, the PTD ratio is appropriate. *Id.* As an alternative, PSE suggests CTI be functionalized using the Labor ratio. For support, PSE claims that the CTI system is "very similar" to the EYRETEL Recording SW - For VOIP Phone System in Table 4.2.1.b of the ASC Draft Report, which was

functionalized with the Labor ratio. *Id.* Both systems according to PSE "automate[] PSE's office operations in a manner that supports the PSE's production, transmission and distribution functions equally." *Id.* PSE concludes that to be consistent, BPA should functionalize these systems in the same way. *Id.*

Finally, PSE notes that it is anticipating that BPA will provide a more thorough discussion of the agency's expectations for Direct Analysis of the items in Account 303 in upcoming workshops. *Id.* at 3.

Summary of Parties' Positions:

PSE argues that the CTI item in Account 303 should be functionalized using either the PTD ratio or the Labor ratio.

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.

PSE's justification for using the PTD ratio for this account is that Computer Telephony Interface Software / Development "automates PSE's communication systems and supports PSE's production, transmission and distribution functions equally." PSE Comments on BPA ASC Draft Report, pg. 2. Such catchall phrases without proper documentation and support, however, could be used to justify the use of the PTD ratio to functionalize PSE's entire ASC filing. Such simple statements do not constitute a valid Direct Analysis, and therefore, fail 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." 2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2). Consequently, because PSE has not provided sufficient information to support its PTD functionalization, pursuant to the ASCM, the costs associated with CTI must be functionalized to Distribution/Other.

PSE contends that the CTI software does not solely support its distribution function, and therefore, functionalizing this cost solely to Distribution/Other is inappropriate. PSE Comments on BPA ASC Draft Report, pg. 2. PSE's argument is misplaced. The burden of performing a Direct Analysis on an item in Account 303 rests with PSE, not BPA. As noted above, the ASCM provides that 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). Thus, PSE's bears the responsibility of demonstrating that the PTD ratio is appropriate for the CTI software. Having failed to meet that burden, the default functionalization of this item is Distribution/Other. *See* 2008 ASCM, Table 1; 18 C.F.R. § 301.9(a), Table 1. The fact that the CTI software system does not serve only PSE's distribution function, as noted by PSE, is irrelevant.

Moreover, based on the information that was provided, BPA believes the proper functionalization of CTI is to Distribution/Other. As with CIS described above, the functionalization of a software system should follow the functionalization of the operation it supports. In the instant case, CTI is software that enables computers to control phone functions such as making and receiving voice, fax, and data calls with telephone directory services and caller identification. BPA understands that this type of software is used by utilities in call centers that primarily handle calls from retail customers. Because this software is used to support PSE's ability to handle retail related calls, the proper functionalization of the costs of this item is to Distribution/Other. In addition, this functionalization is consistent with the functionalization of other retail customer service related items. For example, Accounts 906-907 and 909-910, which cover the costs of customer service and information, are functionalized to Distribution. One of the systems that the customer service operators of PSE use is the CTI software. Since the costs associated with customer service and information is functionalized to Distribution/Other it follows that the software system they rely on, CTI, should similarly be functionalized to Distribution/Other.

As an alternative to BPA's functionalization, PSE suggests CTI be functionalized using the Labor ratio. PSE Comments on BPA ASC Draft Report, pg. 2. For support, PSE claims that the CTI system is "very similar" to the EYRETEL Recording SW - For VOIP Phone System ("EYRETEL") identified in Table 4.2.1.b of the ASC Draft Report, which was functionalized with the Labor ratio. *Id.* According to PSE, both systems "automate[] PSE's office operations in a manner that supports the PSE's production, transmission and distribution functions equally." *Id.* PSE concludes that to be consistent, BPA should functionalize these systems in the same way. (*Id.*)

As noted above, BPA erroneously functionalized EYRETEL with the Labor ratio in the ASC Draft Report. This error occurred because BPA incorrectly believed EYRETEL was a generic VoIP system that could be used to support all aspects of PSE's business. However, after reviewing additional information regarding EYRETEL, BPA discovered that PSE was correct that this program is used primarily by utilities in their retail call center, much like CTI software. Thus, BPA concurs with PSE's argument that EYRETEL and CTI systems should be functionalized consistently. Because CTI systems are functionalized to Distribution/Other, BPA will similarly functionalize PSE's EYRETEL to Distribution/Other as well.

Finally, BPA agrees with PSE's observation that further exploration regarding the level of documentation and support for Direct Analysis of items in Account 303 should be pursued. BPA intends to work with PSE as well as other parties in developing standards that will enable BPA and the utility to more efficiently and productively determine the functionalization of costs in accounts that have many items, such as Account 303.

Decision:

PSE did not make a sufficient showing in its Direct Analysis that costs associated with Computer Telephony Integration (CTI) should be functionalized with the PTD ratio. The default functionalization of CTI is, therefore, to Distribution/Other. In addition, BPA's independent review determined that the appropriate functionalization of CTI is to Distribution/Other.

Table 4.2.2: Account 303, Intangible Plant Miscellaneous: Computer Telephony Interface Software / Development ($)

AS-FILED BY UTILITY	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
Computer Telephony Interface Software/Development	PTD	215,828.23	74,798.37	14,490.43	126,539.42
Computer Telephony Interface Software/Development	PTD	22,049.74	7,641.65	1,480.39	12,927.70
Computer Telephony Interface SW/Development-Custom	PTD	6,495.85	2,251.23	436.12	3,808.50
Computer Telephony Interface Software/Development	PTD	14,458.52	5,010.81	970.73	8,476.98
Total		258,832.34	89,702.07	17,377.67	151,752.60
ADJUSTED					
Computer Telephony Interface Software/Development	DIST	215,828.23	-	-	215,828.23
Computer Telephony Interface Software/Development	DIST	22,049.74	-	-	22,049.74
Computer Telephony Interface SW/Development-Custom	DIST	6,495.85	-	-	6,495.85
Computer Telephony Interface Software/Development	DIST	14,458.52	-	-	14,458.52
Total		258,832.34	-	-	258,832.34

4.2.3. Account 303, Intangible Plant Miscellaneous: Enterprise Resource Planning

Statement of Issue:

Whether PSE's Direct Analysis supports its functionalization of Enterprise Resource Planning in Account 303 to PTD.

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.*

PSE functionalized Enterprise Resource Planning (ERP) systems in Account 303 with the PTD ratio. 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.

In the ASC Draft BPA functionalized ERP systems using the Labor ratio. PSE did not object to this functionalization in its comment on the ASC Draft Reports, and only reiterated its suggestion that BPA commence workshops to more fully explore the documentation requirements for Direct Analysis. PSE Comments on BPA ASC Draft Report, pg. at 3.

Summary of Parties' Positions:

PSE contends the Enterprise Resource Planning (ERP) System should be functionalized to PTD.

Analysis of Positions:

This issue is similar to the issue discussed in Sections 4.2.1 and 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.

PSE's used the same statements discussed in Sections 4.2.1 and 4.2.2 to support its proposed functionalization of ERP systems with the PTD ratio. As discussed above, these statements are insufficient to support PSE's Direct Analysis. In its place, BPA evaluated PSE's ERP systems under the generic software framework discussed in Section 6.1.1. below. Based on this review, BPA determined that the most appropriate functionalization of ERP software costs is the Labor ratio. This functionalization method was chosen because ERP systems are used to increase the 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. The Labor ratio, therefore, is the most appropriate functionalization method for this software asset.

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

Decision:

PSE's Account 303, Intangible Plant Miscellaneous: Enterprise Resource Planning Software will be functionalized with the Labor ratio.

Table 4.2.3: Account 303, Intangible Plant Miscellaneous: Enterprise Resource Planning

AS-FILED BY UTILITY	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
Pathfinder Projects SAP S/W Customization	PTD	22,026,007.32	7,633,429.48	1,478,797.74	12,913,780.09
Pathfinder Projects SAP Software	PTD	3,437,585.34	1,191,344.62	230,795.05	2,015,445.67
Pathfinder Projects SAP S/W Customization	PTD	1,346,970.91	466,812.13	90,433.89	789,724.88
Pathfinder Projects SAP S/W Customization	PTD	4,749.85	1,646.13	318.90	2,784.83
SAP Version 4.6 Upgrade - SW - (ZB81)	PTD	1,170,846.32	405,773.62	78,609.11	686,463.58
SAP Customization Software/GUIXT	PTD	17,850.11	6,186.21	1,198.43	10,465.46
NCC Optimization (SAP) Software	PTD	106,467.03	36,897.68	7,148.06	62,421.29
Oracle Processor Licenses S/W	PTD	111,640.95	38,690.78	7,495.43	65,454.74
Sales & Distrib Enhance SAP SW	PTD	116,106.79	40,238.48	7,795.26	68,073.05
Oracle Growth Software	PTD	60,151.38	20,846.33	4,038.49	35,266.57
Work Mgmt Customization (SAP) Software	PTD	159,163.71	55,160.47	10,686.05	93,317.19
SRM Supplier Relationship Mgt (SAP) SW	PTD	1,560,093.28	540,672.75	104,742.65	914,677.87

AS-FILED BY UTILITY	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
Customer Service Enhancements (SAP) SW	PTD	87,388.48	30,285.73	5,867.15	51,235.60
Easy Enterprise X Software Migration	PTD	85,134.11	29,504.45	5,715.79	49,913.87
Migration Of Right Of Way Redt System To SAP	PTD	94,132.90	32,623.11	6,319.96	55,189.83
Total		30,384,288.48	10,530,111.98	2,039,961.97	17,814,214.54
ADJUSTED					
Pathfinder Projects SAP S/W Customization	LABOR	22,026,007.32	6,163,316.45	931,629.56	14,931,061.31
Pathfinder Projects SAP Software	LABOR	3,437,585.34	961,904.99	145,398.85	2,330,281.50
Pathfinder Projects SAP S/W Customization	LABOR	1,346,970.91	376,909.34	56,972.56	913,089.01
Pathfinder Projects SAP S/W Customization	LABOR	4,749.85	1,329.10	200.90	3,219.85
SAP Version 4.6 Upgrade - SW - (ZB81)	LABOR	1,170,846.32	327,626.17	49,523.05	793,697.10
SAP Customization Software/GUIXT	LABOR	17,850.11	4,994.82	755.00	12,100.29
NCC Optimization (SAP) Software	LABOR	106,467.03	29,791.60	4,503.21	72,172.22
Oracle Processor Licenses S/W	LABOR	111,640.95	31,239.37	4,722.05	75,679.53
Sales & Distrib Enhance SAP SW	LABOR	116,106.79	32,489.00	4,910.95	78,706.85
Oracle Growth Software	LABOR	60,151.38	16,831.56	2,544.21	40,775.61
Work Mgmt Customization (SAP) Software	LABOR	159,163.71	44,537.18	6,732.12	107,894.41
SRM Supplier Relationship Mgt (SAP) SW	LABOR	1,560,093.28	436,545.24	65,986.95	1,057,561.09
Customer Service Enhancements (SAP) SW	LABOR	87,388.48	24,453.04	3,696.25	59,239.19
Easy Enterprise X Software Migration	LABOR	85,134.11	23,822.22	3,600.90	57,710.99
Migration Of Right Of Way Redt System To SAP	LABOR	94,132.90	26,340.27	3,981.52	63,811.12
Total		30,384,288.48	8,502,130.34	1,285,158.08	20,597,000.06

4.2.4. Account 303, Intangible Plant Miscellaneous: Miscellaneous Software

Statement of Issue:

What is the correct functionalization of 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.*

Miscellaneous software is defined as 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. 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 used by employees' computers.

PSE'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 to PTD or Distribution. As such, BPA did its own independent determination of the Miscellaneous software systems listed in Account 303 and determined in the ASC Draft Report that the Labor ratio was a more appropriate functionalization for this item. PSE did not comment on this issue in its comments on the ASC Draft Report.

Summary of Parties' Positions:

PSE argues that software systems in the Miscellaneous category of Account 303 be functionalized using the PTD ratio. PSE supports functionalization of Veritas Backup Server Software and Hummingbird DM Client License SW to Distribution/Other.

Analysis of Positions:

This issue is similar to the issues discussed in Sections 4.2.1- 4.2.3 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. The software PSE classified as Miscellaneous appears to be either used by a large number of PSE employees or supports the general IT infrastructure and more accurately functionalized to the operation it supports or replaces, which are PSE's employees. Therefore, the Labor ratio more accurately reflects the appropriate functionalization.

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

Decision:

Account 303 – Miscellaneous Software will be functionalized to Labor.

Table 4.2.4a: Account 303, Intangible Plant Miscellaneous:
Miscellaneous Software

AS-FILED BY UTILITY	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
Riskmaster Claims Crusher	DIST	27,088.40	-	-	27,088.40
Remedy - Common Helpdesk Software	DIST	15,276.51	-	-	15,276.51
Common Access To Legacy Systems Data	PTD	139,966.20	48,507.30	9,397.15	82,061.75
Common Access To Legacy Systems Data	PTD	3,143.69	1,089.49	211.06	1,843.14
Veritas Backup Server Software	DIST	15,757.03	-	-	15,757.03
Microsoft Exchange Windows 2000 License	PTD	66,527.19	23,055.96	4,466.55	39,004.69
Microsoft Office XP Licenses	PTD	313,911.55	108,790.56	21,075.62	184,045.37
Windows 2000 Server Upgrade	PTD	39,507.65	13,691.94	2,652.49	23,163.21
Checkpoint Firewall Software	PTD	7,597.34	2,632.97	510.08	4,454.29
Sniffer Portable LAN Software	PTD	13,325.87	4,618.27	894.68	7,812.92
Exchange List Messaging Software	PTD	17,145.08	5,941.87	1,151.10	10,052.11
Hummingbird DM Client License SW	DIST	7,664.28	-	-	7,664.28
Microsoft Direct Enterprise SW License	PTD	741,093.57	256,836.63	49,756.07	434,500.87
Microsoft Direct Enterprise SW License	PTD	749,497.54	259,749.15	50,320.30	439,428.09
Hr Enhancements-Compensation S/W	PTD	89,360.14	30,969.04	5,999.52	52,391.57
PSE Internet Website - Phase 1 Software	PTD	1,967,302.21	681,796.86	132,082.13	1,153,423.21
Total		4,214,164.25	1,437,680.05	278,516.75	2,497,967.45

Table 4.2.4b: Account 303, Intangible Plant Miscellaneous:
Miscellaneous Software

ADJUSTED	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
Riskmaster Claims Crusher	LABOR	27,088.40	7,579.88	1,145.75	18,362.78
Remedy - Common Helpdesk Software	LABOR	15,276.51	4,274.67	646.15	10,355.69
Common Access To Legacy Systems Data	LABOR	139,966.20	39,165.34	5,920.12	94,880.74
Common Access To Legacy Systems Data	LABOR	3,143.69	879.67	132.97	2,131.05
Veritas Backup Server Software	LABOR	15,757.03	4,409.13	666.47	10,681.43
Microsoft Exchange Windows 2000 License	LABOR	66,527.19	18,615.64	2,813.89	45,097.67
Microsoft Office XP Licenses	LABOR	313,911.55	87,838.72	13,277.45	212,795.38
Windows 2000 Server Upgrade	LABOR	39,507.65	11,055.03	1,671.05	26,781.57
Checkpoint Firewall Software	LABOR	7,597.34	2,125.89	321.34	5,150.11
Sniffer Portable LAN Software	LABOR	13,325.87	3,728.85	563.64	9,033.39
Exchange List Messaging Software	LABOR	17,145.08	4,797.54	725.18	11,622.36
Hummingbird DM Client License SW	LABOR	7,664.28	2,144.62	324.17	5,195.49
Microsoft Direct Enterprise SW License	LABOR	741,093.57	207,372.77	31,345.88	502,374.91
Microsoft Direct Enterprise SW License	LABOR	749,497.54	209,724.37	31,701.35	508,071.83
Hr Enhancements-Compensation S/W	LABOR	89,360.14	25,004.75	3,779.65	60,575.74
PSE Internet Website - Phase 1 Software	LABOR	1,967,302.21	550,490.42	83,210.58	1,333,601.20
Total		4,214,164.25	1,179,207.27	178,245.65	2,856,711.34

4.2.5. Account 303, Intangible Plant Miscellaneous: Meter Data Interface Software

Statement of Issue:

What is the correct functionalization of Account 303 – Meter Data Interface 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.*

Meter Data Interface Software supports the following functions:

> *Meter Reading System* – this system manages the meter reading for residential and commercial customers. It includes meter route management and performs limited meter read validation.
>
> *Advanced Meter Infrastructure (AIM) System* – this system(s) measures, collects and analyses 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.

In its initial filing, PSE functionalized Meter Data Interface Software to PTD. In the ASC Draft Report, BPA changed this functionalization to Distribution/Other because PSE had not adequately supported its use of the PTD ratio.

Summary of Parties' Positions:

PSE supports functionalization of the Account using the PTD ratio.

Analysis of Positions:

This issue is similar to the issues discussed in Sections 4.2.1 - 4.2.4 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.

Meter Data Interface Software supports the system that manages the meter reading for retail customers. It includes meter route management and performs limited meter read validation measures and collects and analyzes energy usage from advanced devices through various communication media on request or on a pre-defined schedule.

PSE's justification for using the PTD ratio for this account is that that Meter Data Interface Software "supports all functions of the company." PSE Initial ASC Filing, E302_303_399.xls. As noted above, such catchall phrases without proper documentation and support could be used to justify the use of the PTD ratio to functionalize PSE's entire ASC filing. Such simple statements do not constitute a valid Direct Analysis, and therefore, fail 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." 2008 ASCM, Section VIII.B.2; 18 C.F.R. § 301.9(d)(2). Consequently, because PSE has not provided sufficient information to support its PTD functionalization, pursuant to the ASCM, the costs associated with Meter Data Interface Software must be functionalized to Distribution/Other.

In addition, BPA believes that the functionalization of a software system should generally follow the functionalization of the operation it supports. In this case, Meter Data Interface Software supports PSE's retail related activities associated with Account 902, which is functionalized to Distribution/Other. As such, under BPA's generic software framework, the costs associated with the Meter Data Interface Software should be functionalized to Distribution/Other as well.

Decision:

Account 303, Intangible Plant Miscellaneous: Meter Data Interface Software will be functionalized to Distribution/Other.

Table 4.2.5: Account 303, Intangible Plant Miscellaneous: Meter Data Interface Software

AS-FILED BY UTILITY	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
Meter Data Interface Software	PTD	464,487.99	160,974.99	31,185.12	272,327.87
Routestar Meter Reading Software	PTD	112,898.30	39,126.53	7,579.85	66,191.93
Meter Data Warehouse Enhancements	PTD	564,006.11	195,464.43	37,866.64	330,675.04
Meter Data Warehouse Enhancements	PTD	200,237.35	69,395.13	13,443.68	117,398.54
AMRPhase V Software	PTD	140,181.93	48,582.06	9,411.63	82,188.23
Total		1,481,811.68	513,543.14	99,486.93	868,781.61
ADJUSTED					
Meter Data Interface Software	DIST	464,487.99	-	-	464,487.99
Routestar Meter Reading Software	DIST	112,898.30	-	-	112,898.30
Meter Data Warehouse Enhancements	DIST	564,006.11	-	-	564,006.11
Meter Data Warehouse Enhancements	DIST	200,237.35	-	-	200,237.35
AMRPhase V Software	DIST	140,181.93	-	-	140,181.93
Total		1,481,811.68	-	-	1,481,811.68

4.2.6. Account 303, Intangible Plant Miscellaneous: Regulatory Financial System Software

Statement of Issue:

What is the correct functionalization of Account 303 – 3032380 Regulatory Financial System 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.*

In its initial filing, PSE functionalized the Regulatory Financial System Software in Account 303 using the PTD ratio. In the ASC Draft Report, BPA changed the functionalization of this item to Distribution/Other because PSE had not provided an adequate explanation for the use of the PTD ratio. PSE submitted comments on this issue in its comment on the ASC Draft Report, noting that "[a]t the time of writing these comments, additional information about the operations supported by [t]he Regulatory Financial System Software is not available." PSE Comments on BPA ASC Report, pg. at 3. In addition, PSE once again recommended that BPA commence a workshop to discuss the requirements of a Direct Analysis on computer software. *Id.*

Summary of Parties' Positions:

PSE argues that Account 303, Intangible Plant Miscellaneous: Regulatory Financial System Software should be functionalized to PTD.

Analysis of Positions:

This issue is similar to the issue discussed in Sections 4.2.1 - 4.2.5 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/Other. *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 believes that the functionalization of a software system should generally follow the functionalization of the operation it supports and how the operation is functionalized under the 2008 ASCM. Regulatory Financial System Software is used by PSE to support its regulatory compliance activities, which is associated with Regulatory Commission Expenses in Accounts 928. Under the ASCM, Regulatory Commission Expenses are functionalized to Distribution/Other. 2008 ASCM, Table 1; 18 C.F.R. § 301, Tbl. 1; *See also* 2008 ASCM ROD at 81-83.

Decision:

BPA will functionalize Account 303 – 3032380 Regulatory Financial System Software to Distribution/Other.

Table 4.2.6: Account 303, Intangible Plant Miscellaneous: Regulatory Financial System Software

	Function Method	Total Cumulative Acquisition Value	Production Cumulative Acquisition Value	Transmission Cumulative Acquisition Value	Distribution/ Other Cumulative Acquisition Value
Regulatory Financial System Software	PTD	347,435	120,408	23,326	203,700
ADJUSTED					
Regulatory Financial System Software	DIST	347,435	-	-	347,435

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

4.6.1. Taxes – State and Other Property Taxes:

Statement of Issue:

Whether property or in-lieu taxes must be functionalized using the PTDG ratio.

Statement of Facts:

Table 1 of the 2008 ASCM provides that property or in-lieu taxes must be functionalized using the PTDG ratio. *See* 2008 ASCM, Table 1 at 22; 18 C.F.R. § 301, Tbl 1 at 22. In its initial ASC filing, PSE used the PTDG ratio to functionalize its Washington state property taxes. However, PSE performed a Direct Analysis to assign Montana Property Taxes - Colstrip Generating Station and Oregon Property Taxes - BPA Transmission Line directly to Production.

In BPA's January 28, 2009, Issue List, BPA noted that PSE had improperly functionalized the property taxes of the Colstrip Generation Station and the BPA Transmission line to Production. BPA Issue List to PSE at 6. PSE responded that its functionalization of property taxes is consistent with the 2008 ASCM ROD. PSE Response to BPA Issue List at 2.

In the ASC Draft Report, BPA functionalized PSE's property and in-lieu taxes to PTDG. PSE objected to this treatment in its comments on the ASC Draft Report. *See* PSE Comments on BPA ASC Report, pg 4. Specifically, PSE argues in its comments that the PTD functionalization should not apply where the utility pays property or in-lieu taxes for a production facility in a state where such utility does not have a distribution function. (*Id.*) In addition, PSE contends that if the 2008 ASCM would not permit a direct assignment of property taxes to Production, BPA should amend the 2008 ASCM to allow this treatment. (*Id.*)

Summary of Parties' Positions:

PSE argues that out-of-state property taxes should be directly assigned to Production or Transmission regardless of the functionalization requirements of Table 1 of the ASCM.

Analysis of Positions:

The 2008 ASCM is clear that a utility may perform a Direct Analysis only on certain accounts in the Appendix 1. As noted in the introductory paragraph to Section VIII of the ASCM:

> Functionalization of each Account included in a Utility's Average System Cost (ASC) *shall be according to the functionalization prescribed in Table 1*, Functionalization and Escalation Codes, beginning on page 18. Direct Analysis on an Account *may be performed only if Table 1 states specifically that a Utility may perform a Direct Analysis* on the Account with the exception of conservation costs.

2008 ASCM, Section VIII; *See also* 18 C.F.R. § 301.9(a) (emphasis added). Consequently, unless Table 1 provides that the utility may perform a Direct Analysis on the associated account,

the utility must abide by the default functionalization assigned to that account by the ASCM. Table 1 provides that for Account 408.1, "property taxes (in-lieu)", the appropriate functionalization code is PTDG. Thus, under a plain reading of the ASCM, all property taxes must be functionalized with the PTDG ratio.

Despite the clear language of the ASCM, PSE contends that property taxes from states where the utility has no distribution operations should be directly assigned to Production. For support, PSE points to the 2008 ASCM ROD where the Administrator noted as follows:

> The ASCM will exclude state and local income- and revenue-related taxes, excise taxes and miscellaneous fees from ASC, although BPA will include in-state and out-of-state property taxes associated with an exchangeable resource or for resource-related costs such as pipelines.

PSE Response to BPA's Issue List at 2, *citing* 2008 ASCM ROD at 125. PSE contends that this statement was intended to convey BPA's intent to allow utilities to use a PTDG ratio for in-state property taxes and then a Direct Analysis on out-of-state property taxes.

PSE's reading of the 2008 ASCM ROD is not persuasive. The above noted paragraph simply states BPA's general conclusion that property taxes should be allowed into the ASC calculation. This statement was necessary because all *other* taxes (except employment related taxes) were being functionalized to Distribution/Other. The exact functionalization method BPA would use to effectuate this decision was determined in the development of Table 1. There, BPA decided to use the PTDG ratio to functionalize property taxes. This treatment of property taxes should come as no surprise to PSE. The ASCM was clear since its publication in the Federal Register Notice that property taxes would be functionalized with the PTDG ratio. *See* 73 Fed. Reg. 7270 (Feb. 7, 2008). In addition, Table 1 in the Draft ASCM (published in May of 2008) and the Final ASCM (published June of 2008) clearly states that Account 408.1 (Property) would be functionalized using the PTDG ratio. In short, BPA's decision to "include in-state and out-of-state property taxes associated with an exchangeable resource or for resource-related costs such as pipelines" is consistent with BPA's decision to include these costs in ASC using the PTDG ratio as noted in Table 1 of the ASCM. PSE's argument, therefore, must be rejected.

In its Comments on the ASC Draft Report, PSE does not contest that the ASCM requires property taxes to be functionalized with PTDG ratio. Rather, PSE now argues that the requirement in Table 1 to functionalize property or in-lieu taxes using the PTDG ratio is "arbitrary where utilities pay property or in-lieu taxes for a production function in states where such utility does not have a distribution function. In such circumstances, the 2008 [ASCM] should allow for direct assignment to Production." PSE Comments on BPA ASC Report at 4. PSE then urges BPA to "revise the 2008 [ASCM] to permit the direct assignment of costs of property or in-lieu taxes paid in states where the utility does not have a distribution function." *Id.*

PSE's comments are clearly outside of the scope of this proceeding. The ASC Review Process is not the appropriate forum for parties to air their grievances with the ASCM. The time and place to request substantive changes to the ASCM closed with the ending of the formal ASC consultation process and the filing by BPA of the ASCM with FERC in July of 2008. The

ASCM is now pending before the Commission. If PSE believes that further changes to Table 1 of the ASCM are needed, it should have raised these concerns in its comments on the ASCM in one of the many comment opportunities afforded by the Commission. As a result, BPA will not, and in fact cannot, entertain PSE's requests that BPA make additional changes to the ASCM in this ASC Report.

Decision:

State and Other Taxes Property or In-Lieu Taxes will be functionalized with the PTDG ratio.

Table 4.6.1: Taxes:
State and Other Property Taxes

	Functionalization. Method	Total	Production	Transmission	Distribution
As filed Property or In-Lieu (c)	Combination	30,331,897	17,008,324	1,364,058	11,959,516
ADJUSTED Property or In-Lieu (c)	PTDG	30,331,897	10,551,798	2,025,049	17,755,050

4.7. SCHEDULE 3B: Other Included Items

No direct adjustment.

5. SUPPORTING DOCUMENTATION:

5.1. Purchased Power and Sales for Resale

No direct adjustment.

5.2. Salaries and Wages

No direct adjustment.

5.3. Labor Ratios

No direct adjustment.

5.4. Distribution Loss Factor

No adjustments.

5.5. ASC FORECAST MODEL

5.5.1. ASC Forecast Model: Load Forecast - Calendar year versus fiscal year

Statement of Issue:

Whether load forecasts should be based on calendar years or fiscal years.

Statement of Facts:

PSE supplied calendar year load forecasts in its Initial ASC Filing.

ASCs are based on a fiscal year and therefore require fiscal year load forecasts. During the Review Process, PSE supplied an updated load forecast based on fiscal years. The supporting data for the fiscal year forecast for purposes of ASC calculation are shown in PSE Response to BPA Data Request No. 030, tab DetldElecDelLoads at Column T in Attachment A - CONFIDENTIAL PSE Resp BPA DR 030 F2007Tables.

Summary of Parties' Positions:

PSE agrees with the need for fiscal year data and provided revised load forecasts to reflect fiscal years.

Analysis of Positions:

ASCs are based on a fiscal year and therefore require fiscal year load forecasts. PSE provided revised forecasts to reflect fiscal year data.

Decision:

BPA will adjust the initially-filed load forecasts to reflect fiscal year data based on PSE's revised forecasts.

Table 5.5.1: ASC Forecast Model: Load Forecast (MWh)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
CY	21,424,062	21,653,904	21,927,453	22,118,040	22,279,295	22,425,579	22,561,132	23,012,355	23,472,602
FY	21,332,174	21,590,730	21,852,265	22,065,655	22,263,626	22,380,156	22,523,578	22,684,658	22,871,655

5.5.2. New Resource Additions: Grouping Resources with Negative and Positive ASC Impact

Statement of Issue:

Should New Resource Additions that have negative impact on ASCs be Grouped with resources that have a positive impact on ASCs?

Statement of Facts:

In its Initial ASC filing, PSE combined two confidential resources in its Group 1 resource. One of the resources would increase PSE's ASC and the other would decrease PSE's ASC. When preparing the ASC Draft Report, BPA did not consider whether grouping new resources that both positively and negatively affect ASC is consistent with the ASCM. After the ASC Draft Report was issued, BPA noted this result and reevaluated the grouping of PSE's resources. BPA now believes that new resource additions that decrease ASC cannot be grouped with resources that increase ASC.

Parties' Positions:

PSE grouped new resources additions that both positively and negatively impact ASC together in its original filing.

Analysis of Positions:

Section IV, subsection C of the ASCM provides that a utility's ASC may change during the Exchange Period only to reflect a major new resource addition or reduction. *See* 18 C.F.R. § 301.5(c)(1). In order to be eligible for consideration in the utility's ASC, the resource must meet a materiality threshold. *Id.* Specifically, the ASCM's materiality threshold is defined as follows:

> Bonneville will apply a materiality threshold of 2.5 percent change in a utility's Base Period ASC to determine when a change in ASC will be allowed for resource additions or reductions. Bonneville will allow a utility 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.

Id. at § 301.5(c)(3).

The ASCM is silent on whether a utility must stack resources that increase ASC with resources that decrease ASC. After reviewing the intent and purpose behind the stacking provisions of the ASCM, BPA believes that the most appropriate implementation of Section IV.C of the ASCM is to require utilities to separately stack resources that increase ASC and resources that decrease ASC. This approach makes the most sense because it avoids the potential for perverse results when new resources that increase ASC are combined with resources that decrease ASC. By combining new resources that increase ASC with new resources that decrease ASC, a utility may miss the 2.5 percent materiality threshold due to the netting impact that naturally occurs when these resources are combined. The following chart illustrates this point.

Resource 1	-3.0%	Material @ the 2.5% Threshold
Resource 2	+1.0%	Material @ the 0.5% Threshold
Group	**-2.0%**	**Not Material @ 2.5% Threshold**

In addition, BPA is concerned that if both types of resources are combined, utilities may be able to game the 2.5 percent materiality threshold by timing resources to achieve the most advantageous ASC treatment. BPA does not want to give utilities an incentive to manipulate the start date of their new resources in order to meet the 2.5 percent materiality threshold.

To conclude, BPA believes the intent of Section IV.C. of the ASCM was to allow a utility's ASC to rise (or fall) with the addition of new resources. This intent can best be accomplished if resources with like-impacts on ASC are combined. Consequently, BPA will regroup PSE's resources such that resources that reduce PSE's ASC are not grouped with resources that increase PSE's ASC. Since PSE's new resource that lowers its ASC does not meet the 2.5% materiality threshold by itself, (it is -0.14%), it will be removed from PSE's Group 1 resource additions in the ASC Forecast Model. This change will increase PSE's ASC slightly.

Decision:

New Resource Additions that decrease ASC cannot be grouped with resources that increase ASC. BPA will remove the new resource addition that decreases PSE's ASC from PSE's Group 1 new resource additions in the ASC Forecast Model.

5.5.3. Rate Period New Resource Online Date

Statement of Issue:

What is the appropriate on-line date for new resource additions during the rate period?

Statement of Facts:

In its initial filing, PSE's modeled its Group 2 new resource additions as coming on-line on December 1, 2008.

Section IV.C.5 of the ASCM requires that resources forecasted to be brought on-line during the rate period shall be "projected forward to the mid-point of the Exchange Period." *See* 18 C.F.R. § 301.5(c)(7). The mid-point of the FY 2009 rate period is April 1, 2009.

Summary of Parties' Positions:

PSE agrees with BPA that the online date for the Group 2 resources should be changed to the mid-point of the rate period (4/1/2009).

Analysis of Positions:

Section IV.C.5 of the ASCM requires that resources forecasted to be brought on-line during the rate period shall be "projected forward to the mid-point of the Exchange Period." *See* 18 C.F.R. § 301.5(c)(7). The mid-point of the FY 2009 rate period is April 1, 2009. PSE agrees with BPA's position.

Decision:

BPA will change the on-line date for PSE's new resource additions from December 1, 2008, to April 1, 2009, for ASC purposes.

Table 5.5.2: ASC Forecast Model: Online Date

As filed	ADJUSTED
Group 2	Group 2
2008	2009
12	4
12/01/08	04/01/09

5.5.4. ASC Forecast Model: Capacity Factors: New Plant Addition

Statement of Issue:

Whether BPA should adjust the capacity factor used in the ASC Forecast model for estimating the operating costs and expected energy output for new plant additions.

Statement of Facts:

In PSE's Supplemental Response to Data Request No. 39 dated February 10, 2009, PSE stated that

> [y]ear to year, the projected capacity factor varies depending on projected market conditions. Similarly, the actual capacity factor will vary based upon actual market conditions. Mint Farm Generating Station is designed and permitted to

run 24/7. Economics and market conditions will determine the actual run time for the plant. As/if the actual run time changes over time, so will the actual capacity factor, all other things being equal. Changes to the capacity factor and run time assumptions for Mint Farm necessitate corresponding changes to the total O&M costs associated with the new resources.

PSE restated its capacity factor, average cost of fuel burned and heat rate. This restatement resulted in changes in Mint Farm's O&M expenses.

Summary of Parties' Positions:

PSE restated its capacity factor, average cost of fuel burned and heat rate, with a resulting increase in Mint Farm's O&M expenses.

Analysis of Positions:

BPA has considered the information provided by PSE in its supplemental data response. After reviewing this additional material, BPA believes the restated capacity factors submitted by PSE are within the range of normal operating characteristics for a combined cycle combustion turbine. BPA, therefore, will use these revised figures in calculating PSE's ASC.

Decision:

BPA adjusted Mint Farm's capacity factor, average cost of fuel burned and heat rate, which increased Mint Farm's O&M expenses.

Table 5.5.3: ASC Forecast Model: Capacity Factors

	Mint Farm As Filed	Mint Farm Revised
Capacity Factor (Expected)	26.1%	54%
Average Cost of fuel burned ($/MMBtu)	$9.11	$7.24
Total O&M (including Fuel and Transmission)	$72,493,939	$96,381,314

6. OTHER ISSUES

6.1. Generic Issue List

In addition to the above-noted issues specific to PSE, 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 Reports. In general, the IOUs responded in unison. Puget Sound Energy 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 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"[4] or "supports all areas of the company."[5] These catchall phrases, if 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.

[4] *See* Data Responses ASC-09 PA-BPA-12 and ASC-09-PS-BPA-6

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

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 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 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."[6] 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.[7]

Regulatory assets and liabilities are a subset of the larger issue of the difference between accounting for utilities that are subject to price regulation and Generally Accepted Accounting Principles (GAAP). The issue can be traced back to the Internal Revenue Act of 1954, which permitted use of accelerated depreciation for income 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.[8]

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

After review of the parties' comments and the 2008 ASCM ROD, BPA believes that functionalization of Regulatory Assets and Liabilities is a two-step process. First, the regulatory

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

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

[8] *Id.*

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.

PSE's confidential resource Group1 is a gas-fired generating plant that came on-line during CY 2007. When PSE submitted its 2009 ASC filing in October 2008, it used three months average (as of 3/11/2008) Sumas gas forward price for the confidential resource Group1. PSE 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. SNOPUD Issue List Response to BPA, Issue 12.

In separate comments on the 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 PSE resource, confidential resource Group1 is a gas-fired generating plant that came on-line during CY 2007, which is after the Base Period. When PSE submitted its 2009 ASC filing in October 2008, it used three months average (as of 3/11/2008) Sumas gas forward price for the confidential resource Group1. PSE used the same fuel price in its FY 2010-11 ASC filing as well. BPA compared this fuel price to the fuel prices paid by PSE's for this unit as reported in PSE 2007 FERC Form 1, and found the confidential resource Group1 fuel price to be significantly different from the original filing. BPA believes that the actual fuel costs as reported in the 2007 FERC Form 1 for the confidential resource Group1 is more reflective of the 2007 fuel costs for this plant. BPA proposes to replace the fuel costs reported in the original filing with fuel costs based on 2007 actuals adjusted for annualized capacity factors. (See PSE Data Responses to BPA No.01, filed December 9, 2008 -Attachment A to DR_ASC-09-BPA-PS-01 CONFIDENTIAL.xls)

Decision:

BPA will use the Final Supplemental Proposal natural gas price forecast for new resources for FY 2009 ASC filings. For confidential resource Group1*, 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.
>
> | Resource Type | Capacity Factor |
> |---|---|
> | 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 Puget Sound Energy's Appendix 1 filing, BPA decreased PSE's as filed CY 2006 ASC by $ 0.36/MWh and decreased PSE's as filed FY 2009 ASC by $0.57/MWh. Puget Sound Energy's ASC for FY 2009 is $62.79 /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 Report 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 Average System Cost Methodology (ASCM) and with generally accepted accounting

principles. BPA believes the information and analysis contained herein properly establish the Average System Cost of PSE for FY 2009.

This ASC Final Report is BPA's determination of PSE's FY 2009 ASC based on the information and data provided by PSE, 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 PSE's ASC filing, as amended, and the administrative record of the ASC Review Process. Based on this review and the foregoing analysis of the issues, I certify that this ASC determination conforms to the 2008 ASC Methodology and generally accepted accounting principles, and fairly represents PSE's ASC.

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

Acting For /s/ Allen L. Burns
Administrator

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