Initial Proposed ASC Methodology Changes
Of
Avista Corporation, Idaho Power Company, NorthWestern, Puget Sound Energy, Inc., PacifiCorp and Portland General Electric

Submitted April 10, 2008

1. **FERC Form 1 Data Functionalization (general)**
   (a) In general, it would be best for accounts that are shown in the template as other than DIRECT, to have the option to perform a Direct Analysis.
   (b) The option for direct analysis would allow the utility to make the appropriate adjustments. For accounts in the template that are to be functionalized based on DIRECT, a default methodology should be allowed where possible and should be available for use in future ASC filings and not limited to just the initial filing of March 3, 2008. Additionally, there are instances where a portion of a plant account may be directly assignable and other portions may relate to the company as a whole and should be allocated. For example, NorthWestern has costs in account 303 that are 100% transmission and software costs that relate to all functions.

2. **BPA requires that utilities file annual Appendix 1's with updated FERC Form 1 data each year. However, in years that BPA is not commencing a WP rate case the filings are for informational purposes only.**
   (a) Base ASCs should be updated using updated FERC Form 1 data during a BPA rate period if the BPA rate period exceeds two years.

3. **Taxes other than Federal Income Tax (general comment)–see, e.g., 2006 FERC Form 1 page 262**
   (a) Taxes other than Federal Income tax should be included in ASC and should use DIRECT analysis.
   (b) Taxes are incurred based on plant (such as property tax), revenue or expense (such as unemployment tax) or some combination of these costs (such as the public utility tax). Plant and expense are functionalized within the template across PTD. Accordingly, tax expense incurred on these bases should also be functionalized on the results of functionalizing the tax basis.

4. **State Income / Revenue Taxes**
   (a) All state income/revenue taxes should be allowed and functionalized either by an internally developed net income ratio or a gross-up calculation to the return component or default to the PTD specific functionalization ratio.
   (b) Just like federal income taxes, state income taxes are a cost and a function of providing electricity to the customer. All income or revenue related

taxes are a cost the utility pays on the revenues resulting from the rates charged for the production, transmission and distribution of electricity.

(c) For example, the Public Utility Tax in Washington applies to all revenue generated for utility services provided by investor-owned utilities that operate in the state of Washington. These activities include production, transmission and distribution functions. Utility commissions in other states have similar statutory responsibility. As such, these taxes are appropriately included in ASC and allocated to PTD.

5. Out-of-State Property Taxes–see, e.g., 2006 FERC Form 1 page 262 and Account 236

(a) A utility may pay "out-of-state" state or local property taxes on a particular P or T facility (such as on an out-of-state transmission line from a remote generation facility). As such, these fees are appropriately included in ASC and allocated to DIR-P or DIR-T.

(b) These taxes should be included in ASC and allocated to DIR-P or DIR-T.

(c) For example, PGE pays Washington state property taxes on a natural gas pipeline used to provide natural gas to our Beaver and Port Westward generation facilities, as well as the Mist natural gas storage facility. As such, these fees are appropriately included in ASC and allocated to DIR-P.

6. Montana Electric Producers Tax – see, e.g., 2006 FERC Form 1 page 262 and Account 236

(a) These taxes should be included in ASC and allocated to DIR-P.

(b) The Montana Electric Energy Producers Tax is a tax on production of electricity. As such, these costs are appropriately included in ASC and allocated to DIR-P.

7. Account 928 Regulatory Commission Expenses ()

(a) Should be included in ASC and allocated to P-T.

(b) Account 928 for PGE includes fees paid to the FERC. The FERC regulates wholesale transmission and wholesale power markets. As such, these fees are appropriately included in ASC and allocated to transmission and production.

(c) Account 928 for PSE includes fees paid to the WUTC. The WUTC regulates utility services provided by investor-owned utilities that operate in the state of Washington. These activities include production, transmission and distribution functions. As such, these regulatory fees are appropriately included in ASC and allocated to PTD

8. Public Utility Commission Fee – see, e.g., 2006 FERC Form 1 page 262 and Account 236

(a) Should be included in ASC and allocated to PTD. Should be included in ASC and should be functionalized using Direct Analysis, or default to PTD. (Template shows DIR-D on tab Sch 3A - Taxes.)

(b) For example, the Public Utility Commission of Oregon has statutory responsibility to regulate all regulated aspects of investor-owned utilities that operate in their jurisdiction.

9. State Department of Energy Fees

(a) Should be included in ASC and allocated to PTD.

(b) The Oregon Department of Energy has responsibility (through EFSEC) for siting approval of production and transmission facilities. The agency also participates in PGE rate cases and proceedings conducted at the Oregon Public Utility Commission. Agencies in other states have similar responsibilities. As such, these fees are appropriately included in ASC and allocated to PTD.

10. Oregon Department of Environmental Quality Fees

(a) Should be included in ASC and allocated to DIR-P.

(b) Oregon DEQ fees are assessed for permits and emissions for fossil fuel generation plants such as Boardman and Beaver. As such, these fees (and any similar fees in other states) are appropriately included in ASC and allocated to DIR-P.

11. Water Power Fee

(a) Should be included in ASC and allocated to DIR-P.

(b) The Water Power Fee consists of hydroelectric licensing fees and other claims on PGE's use of rivers to produce electricity. As such, these fees (and any similar fees in other states) are appropriately included in ASC and allocated to DIR-P.

12. Acquisition Adjustments–(Electric) Account 114

(a) Should be included in ASC and should be functionalized using Direct Analysis, or default to DIR-P. (Template shows DIR-D on tab Sch 1-Rate Base.)

(b) Account 114 for PSE for 2006 includes costs relating to a combustion turbine. As such cost are appropriately included in ASC and functionalized as DIR-P, the remainder of the plant balance relates to transmission and distribution. The template does appear to allow DIRECT for the related expense (see Amortization of Plant Acquisition Adjustments (Electric) on tab Sch 3 – Expenses).

13. Account 302 Intangible Plant

(a) Should be included in ASC and allocated to DIR-P.

(b) Account 302 for PGE for 2006 is comprised solely of hydro relicensing costs. As such, these costs are appropriately included in ASC and allocated to production.

14. Account 920-932 Administrative and General (labor)

(a) Should be included in ASC and allocated to Labor

(b) Account 920-932 is comprised of labor costs. As such, these costs are appropriately included in ASC and allocated to Labor.

15. Sales for Resale–see, e.g., 2006 FERC Form 1 pages 310-311 and Account 447

(a) Requirements (RQ) Sales for Resale should not be included in ASC. Other (OS) Sales for Resale should be functionalized as DIR-P.

(b) Requirements (RQ) Sales for Resale includes revenue derived from firm sales for resale to requirements sale for resale customers that take service on the utility's system and for which firm system costs (both ratebase and expense) are generally allocated in jurisdictional and FERC rate making processes. Revenues from these sales are not available to offset production costs (as they are recovering their allocated cost) in the same way that the "off-system" sales are available to offset production related costs.

16. Normalize Net Power Supply Costs (Accounts 447, 501, 547 & 555)

(a) These accounts can move substantially from year to year for a hydro-based utility.

(b) Each utility should have a one time option to elect for the contract term to normalize net power supply expenses on a rolling five-year average. The average should utilize real dollars to allow for effects of inflation on the average.

17. Conservation costs–see, e.g., 2006 FERC Form 1 pages 232 and 323 and Accounts 182 and 908

(a) For PSE, Account 908 includes expenses associated with conservation, and this account should be included in ASC and should be functionalized as DIR-P.

(b) PSE's conservation program expenditures are included in 182.3XXX. These costs should be functionalized as DIR-P.

18. Account 908 – Customer Assistance should have option to functionalize by direct analysis.

(a) Account 908 – Customer Assistance is the expense account where conservation and DSM programs are booked.

(b) The utility should have the option to functionalize account 908 by direct analysis. If no direct analysis is provided then apply specific functionalization ratio of DIR-D.

19. Public Purpose Charge – Energy Conservation Charge, Advice No. 07-022 is entirely conservation

(a) This new public purpose charge in Oregon is specifically for conservation and therefore, should be functionalized by DIR-P.

(b) The Energy Conservation Charge was approved at the OPUC January 22 Public Meeting, Advice No. 07-022. The original public purpose charge is currently functionalized by a 70%/30% specific functionalization ratio determined by BPA resulting from discussions with the Oregon Energy Trust. This split may change depending on future discussions; however the new public purpose charge is entirely for conservation measures and therefore should be functionalized 100% to Production.

20. Universal Systems Benefit Charge

(a) The Universal Systems Benefit Charge in Montana should be included in ASC and allocated to DIR-P.

(b) Similar to the other utilities, NorthWestern collects revenue for public purpose activities (Universal Systems Benefit Charge). As such, these costs are appropriately included in ASC and allocated to DIR-P.

21. Materiality of New Investment or Contracts

(a) New investments (generation or transmission projects or upgrades) or contracts (generation or transmission) that exceed a materiality level should be added to the FERC Form 1 data as a within period ASC adjustment.

(b) The new investment or contract should meet the test if either:

i. the new investment or contract would increase ASC by at least a specified dollar/ MWh amount—perhaps $1 per MWh or,

ii. the new investment or contract would increase Contract System Cost by at least a specified dollar amount—perhaps $10,000,000.

22. Major resource additions may trigger an additional ASC filing

(a) Major plant additions other than resource or transmission should be allowed to trigger an ASC change.

(b) Utilities may make major investments in plant that is associated with major resources or transmission projects but that are not resource or transmission investments, e.g., – pollution control or hydro relicensing fees. These investments, if they meet the materiality test should be allowed to trigger a change in a utility's ASC.

23. Long Term Contracts

(a) Long term contracts should be considered when looking at new resources.

(b) Since NorthWestern doesn't own generation, it purchases substantially all of its supply. As such, long term contracts are comparable to major resource additions, and should be allocated to DIR-P.

25. Labor Ratio Calculation

(a) Some labor costs are excluded from the FERC Form 1.

(b) The current calculation of the Labor Allocator excludes labor costs that are not reported in the FERC Form 1. For example, Idaho Power is not the operator of its three coal fired plants; therefore the salaries do not get reported in FERC Form 1, even though it pays a significant portion of those labor costs, in some instances up to 50%. An adjustment needs to be made to include these costs in the calculation of the labor ratio.

26. Account 392 & Account 396 – General Plant

(a) Should be functionalized to PTD.

(b) These accounts are traditionally functionalized as PTD in rate proceedings, due to the fact those facilities have and need equipment to transport employees and perform maintenance on facilities (i.e., cranes, loaders, trucks, etc.).

27. Account 930.1 & Account 930.2 – A&G Expense

(a) Should be functionalized to Labor.

(b) These accounts are traditionally functionalized as Labor in rate proceedings. As such, these costs are appropriately included in ASC and should be allocated to Labor.

28. Multi-State Jurisdictional Allocation

(a) Bonneville should use the jurisdictional cost allocation for each northwest state as approved by that state's commission.

(b) In the initial filing, Bonneville used the state jurisdictional cost allocators approved by the Oregon Public Utility Commission for Washington and Idaho in addition to Oregon. These should be changed to reflect the allocations approved by Washington and Idaho.

29. Escalating Expense and Rate Base

(a) In calculating an ASC for FY 09, Bonneville escalates expense to the twelve months ending September 2008 and also calculates the rate base as of that date. This methodology does not accurately calculate the ASC for the exchange period.

(b) Bonneville should use the same methodology to escalate ASC expense and ratebase as it does to forecast its own costs.

30. Escalating Depreciation

(a) If distribution plant is increased annually to reflect new growth, then the accumulated depreciation should be updated for another year of depreciation expense.

(b) Bonneville should project an increase in the plant depreciation expense and reserve if it escalates plant.