

ITEM NO. CA4

**PUBLIC UTILITY COMMISSION OF OREGON
REDACTED STAFF REPORT
PUBLIC MEETING DATE: June 9, 2022**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: May 20, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UM 2220)
Application for Approval of Deferred Accounting for Operating Costs and Capital Investments Made to Implement PacifiCorp's Distribution System Plan.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve PacifiCorp dba Pacific Power's (PacifiCorp, PAC, or Company) application for authorization to defer accounting for the operating costs incurred and prudent capital investments made to implement and operate the Company's Distribution System Plan (DSP) for the 12-month period beginning on January 3, 2022.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request for authorization to defer accounting of costs associated with the Company's DSP.

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include, "[i]dentifiable utility expenses or revenues, the recovery or refund of which the Commission finds should be deferred in

order to minimize the frequency of rate changes or the fluctuations of rate levels or to match appropriately the costs borne by and benefits received by ratepayers." ORS 757.259(2)(e).

In OAR 860-027-0300(1)(b), "Deferred Accounting" means recording the following in a balance sheet account, with Commission authorization for later reflection in rates:

- A. Electric companies, gas utilities, and steam heat utilities: current expense or revenue associated with current service, as allowed by ORS 757.259; or
- B. Large telecommunications utilities: an amount allowed by ORS 759.200.

If a deferral under ORS 757.259 or ORS 759.200 is reauthorized, the reauthorization expires 12 months from the date the authorization become effective.

In OAR 860-027-0300(3), the Commission has set the requirements for the contents of deferred accounting applications. Applications for reauthorization must include a description and explanation of the entries in the deferred account up to the date of the application for reauthorization, as well as the reason for continuation of deferred accounting.

Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Analysis

Background

On January 3, 2022, PacifiCorp requested deferred accounting to permit tracking of the operating costs incurred and prudent capital investments made to implement and operate the Company's DSP. Part 1 of the DSP was filed on October 15, 2021, in accordance with Order No. 20-485 (October 2021 filing).¹ **Part 2 of the DSP will be filed in August 2022.**

In October 2021, the Commission opened Docket No. UM 2005 to conduct an investigation of investor-owned utility's DSP practices. This investigation developed initial guidelines that accelerate Oregon's clean energy investments and transform how investor-owned utilities plan for the distribution system. These guidelines were approved in Commission Order No. 20-485 and set forth a "transparent, robust and holistic" distribution system planning process.²

¹ See Docket No. UM 2198, *In the Matter of PacifiCorp Distribution System Plan*, Initial Application, Oct. 15, 2021.

² *In the Matter of the Public Utility Commission of Oregon, Consideration for Adoption Staff Proposed Guidelines for DSP*, Docket No. UM 2005, Order No. 20-485, Dec. 23, 2020.

At this time, PacifiCorp is filing for deferral of the operating costs and capital investments made to implement and operate the DSP for the 12-month period beginning on January 3, 2022.

The Citizens' Utility Board (CUB), an intervenor, requested that the Commission consolidate PacifiCorp's application for a deferral for operating costs and capital investments to implement its Distribution System Plan, Docket No. UM 2220, into the UE 399 General Rate Case.³ However, on April 11, 2022, the motion to consolidate UM 2220 into the Rate Case was denied.⁴

Reason for Deferral

ORS 757.259(2)(e) allows the deferral of identifiable utility expenses in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers.

Proposed Accounting

PacifiCorp proposes to record deferred amounts to Federal Energy Regulatory Commission (FERC) Account 182.3, Other Regulatory Assets. This account will accrue interest at the Commission-authorized rate for deferred accounts.

Estimated Deferrals in Authorized Period

The cost estimates range from a lower cost of approximately \$20 million (one-time cost) and an annual cost of \$7.6 million, to a higher cost of just under \$84 million (one-time cost) and an annual cost of \$12.5 million. The one-time cost is expected to be incurred over the first five years of implementation of DSP and the annual costs ramp up over the five-year implementation period.

PacifiCorp anticipates incurring the following costs related to the DSP in 2022:

1. Capital costs consisting of implementation of Load SEER and additional CYME plug-ins (i.e. CYME, Distributed Energy Resources Impact Evaluation (DERie), and Advance Metering Infrastructure dynamic data-pull) to support granular load forecasting consistent with DSP guidelines;
2. Internal administration costs which include internal program management, training and support for internal Company representatives, and customer outreach costs;

³ *In re PacifiCorp's Request for a General Rate Revision*, Reply of The Oregon Citizens' Utility Board to PacifiCorp's Combined Reply Supporting and Opposing Motions to Consolidate, Docket Nos. UE 399/UM 2220, April 8, 2022.

⁴ *In re PacifiCorp's Request for a General Rate Revision*, Ruling-Motions to Consolidate Granted in Part; Denied in Part, Docket Nos. UE 399/UM 2220, p.4, April 1, 2022 (finding that consolidation of docket UM 2220 and UE 399 will not promote efficiency).

3. External administration costs which include external program support toward DSP collateral and working with Community Based Organizations; and
4. Evaluation of analytical tools such as Greenlink Analytics or equivalent.

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[REDACTED]	[REDACTED]
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	[REDACTED]
	[REDACTED]

[END CONFIDENTIAL]

Information Related to Future Amortization

- Earnings Review – Cost recovery associated with this deferral will not be subject to an earnings review since it would be subject to an automatic adjustment clause.
- Prudence Review – Should be performed by the Commission Staff as part of their review of this deferral’s annual reauthorization filing.
- Rate Spread/Rate Design – Revenues will be allocated to each cost-of-service schedule with the basis to be determined prior to amortization.
- Sharing – This deferral is not subject to a sharing mechanism.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (with exceptions) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility’s gross revenues for the preceding year.

Conclusion

Based on Staff’s review of PacifiCorp’s application to request authorization to defer, for future inclusion in customer rates, the revenue associated with cost and capital investment made to implement and operate its 2022 DSP, Staff recommends PacifiCorp’s application be approved.

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The Company has reviewed this memo and agrees with Staff's recommendation.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's application for reauthorization to use deferred accounting for the operating costs incurred and prudent capital investments made to implement and operate the Company's Distribution System Plan for the 12-month period beginning on January 3, 2022.

PAC UM 2220 DSP Deferral