

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 1, 2022**

REGULAR **CONSENT** **EFFECTIVE DATE** November 1, 2022

DATE: October 20, 2022

TO: Public Utility Commission

FROM: Ishraq Ahmed

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

SUBJECT: PORTLAND GENERAL ELECTRIC and PACIFICORP:
(Docket No. UP 420)
Joint Application for the Sale by Portland General Electric Company and
the Purchase by Pacific Power of the Knott-St. Johns 57 kV Line and
Associated Assets.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission (Commission) approve the joint application by Portland General Electric (PGE) and PacifiCorp (PAC, or PacifiCorp) for the sale by PGE and the purchase by PacifiCorp of the Knott-St. Johns BPA 57 kV line and associated assets located in Portland, Oregon. Both PGE and PacifiCorp shall provide to the Commission the final book entries associated with the sale within 60 days of close of the transaction.

DISCUSSION:

Applicable Rule of Law

PGE and PacifiCorp (Companies) filed this joint application on July 27, 2022, pursuant to ORS 757.480, ORS 757.485, and OAR 860-027-0025. The standard for property sales transactions is a “no harm” standard and this proposed transaction falls within this scope

Issue

Whether the Commission should approve the sale by PGE to PAC, of the Knott-St. Johns BPA 57 kV line and associated assets necessary for PGE to provide utility

service to the public after completion of a new substation, where the sale will allow PAC to avoid costs PAC would otherwise incur for the construction of a new line along a new route located in Portland, Oregon.

Background

PGE is currently rebuilding its Northern substation which will convert the 57 kV substation to 115 kV. The Northern substation is currently served by the Knott-St. Johns BPA 57 kV line. The substation rebuild is almost complete with the final transmission line work scheduled to be completed in November 2022.¹ The Northern substation is being rebuilt because: (1) it contains assets that, in some instances, have been in service beyond their end of life; (2) the substation has no telemetry for remote monitoring; and, (3) at 11 kV distribution voltage, the substation has limited operational flexibility for PGE when planned or unplanned outages occur. PGE will no longer need to utilize the Knott-St. Johns BPA 57 kV after the conversion of the Northern substation to 115 kV is completed.

PacifiCorp is seeking to construct a new Albina-Knott-St. Johns Bonneville Power Administration (BPA) 115 kV line (referred to as "Albina-Knott-St. Johns BPA line"). If one of the three 115 kV sources² in PacifiCorp's Knott substation loses service, the next contingency on either of PacifiCorp's or PGE's transmission systems can cause overloads on the remaining 115 kV and 57 kV lines feeding into the Knott and Albina substations. PacifiCorp's new Albina-Knott-St. Johns will run in parallel to its Knott-St. Johns Switching Station 115 kV line, thus reducing the flow on the latter line and alleviating potential overload concerns.

Since PGE no longer needs to utilize the Knott-St. Johns BPA 57 kV line, PacifiCorp proposes to purchase and subsequently utilize the existing Knott-St. Johns BPA 57 kV line route as part of its new Albina-Knott-St. Johns line. PacifiCorp intends to convert the purchased PGE Knott-St. Johns BPA line from 57 kV line to 115 kV.

Analysis of Issue

The Companies began discussions on the project in June 2019 and contract negotiations between the two parties commenced in November 2021.³ The sale price agreed upon between the Companies is \$2,029,983 and reflects PGE's net book value. The purchased assets include 180 line-pole structures and associated transmission

¹ PGE response to Staff IR 5.

² The three 115 kV sources are: (1) Knott-St. Johns Switching Station 115 kV line; (2) Albina-Knott 115 kV line; and (3) Knott-Troutdale 115 kV line.

³ PGE response to Staff IR 3.

components, along with 111,830 lineal feet of conductor, guys, and anchors, including the foundations, jumpers, and insulators for the facilities. The purchased assets exclude PGE's distribution level assets that may be attached to the same poles along the route as well as the distribution level transformers.

Allocation of Sale Price

Based upon appraisals provided, for which the sale price is based, the total sale price of \$2,029,983 is comprised as follows:

Table 1 – Sale Price Allocation

ITEM:	PRICE:
Poles, towers, and fixtures	\$1,816,572
Overhead conductor and devices	\$213,411
Total Sale Price	\$2,029,983

From information provided in Exhibit L as attachment.

Staff Review

Staff's review of the application did not identify any unusual or restrictive terms or conditions. The Purchase Agreement includes provisions for the Buyer (PacifiCorp) to assume all liabilities that might arise following the close of the sales transaction. However, PGE retains the environmental liabilities that arise from any operation prior to the sale.⁴ In addition, there were no pending claims related to the assets in the Asset Purchase Agreement. PGE has also determined that the risk of liability arising before closing is low and this risk is appropriate for PGE to carry.⁵

As part of Staff's review of the application, Staff issued multiple information requests. The information requests evaluated various issues, including but not limited to, whether any of the PGE facilities that were included in the rate base for UE 394 will be sold, the dollar rate base amount that was included in UE 394 associated with the rebuilding of PGE's Northern substation, the rationale for the sale price of the assets, and the value of the easements, assignment of environmental risks, and permits transferred to PAC.

Assets at Net Book value

PGE was asked to describe how the sales price is reasonable. PGE indicated that they were selling the Knott-St. Johns BPA 57 kV and other associated assets at net book value and not based on alternate project costs that PAC would have incurred. In

⁴ PGE response to Staff IR 4.

⁵ PGE response to Staff IR 4.

addition, PGE is selling assets that would be idle and deemed “no longer useful or necessary for PGE to provide utility service to the public”. PGE further stated that no market for such assets valued at net book value exists and therefore no independent appraisal was conducted to appraise the “market value”.⁶ For PacifiCorp, the purchase of the assets and the subsequent conversion of the line would reduce costs that it would have incurred for the construction of a new line along a new route. The transaction further minimizes the impact on the community associated with the construction of a new line. It has been a practice of the utilities regulated by the OPUC to sell facilities to each other at net book value; and the Commission has routinely approved these sales. In this case, while one could argue that PGE may have had an opportunity to obtain a higher sales price given PacifiCorp’s much higher alternative costs, PGE would not have much use for the facilities if there was no sales transaction and salvage value is below the sales price.⁷ Therefore, Staff believes this reflects the true value of the assets and considers the \$2,029,983 a reasonable sales price.

Facilities in Rate Case UE 394

PGE indicated that all the assets that will be sold were included in the UE 394 rate base. The dollar amount of the UE 394 rate base that will be sold is \$2,029,983, which is the net book value.

Staff requested details on the dollar rate base amount that was included in UE 394 associated with the rebuilding of PGE’s Northern substation. The dollar amount included in PGE’s UE 394 rate base associated with rebuilding PGE’s Northern substation (project P36178 – North Portland Conversion) was \$227,870 and represents a single phase of the project.⁸

Easements and Permits

Staff requested details on whether PGE is transferring existing permits to PacifiCorp and the value of these permits. PGE stated that the transaction price includes permits that are fully depreciated and have a \$0 net book value. PGE also disclosed that no appraisal was conducted to determine the market value of the easements and permits that will be transferred to PacifiCorp since they are being sold at a net book value of \$0.⁹

Railroad Permit 27351-00 and Railroad Permit 11921-00

PacifiCorp was asked to explain when it will address the lapse in compliance for Railroad Permit 27351-00 and Railroad Permit 11921-00. PacifiCorp stated that they

⁶ PGE response to Staff IR 2.

⁷ PGE response to Staff IR 2, IR 8, and IR 9.

⁸ PGE response to Staff IR 10.

⁹ Revised PGE response to Staff IR 7.

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had applied to the Union Pacific Railroad for an updated permit in PacifiCorp's name in February 2022 for Permit 27351-00 and have not received a response. PacifiCorp is currently working on the application to renew Permit 11921-00 and expects to apply in October 2022. PacifiCorp further indicated that they will request an expedited review when the application is submitted. Staff expects the applications to be approved.

The Companies have reviewed this memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve the sale by PGE to PacifiCorp, of the Knott-St. Johns BPA 57 kV line and associated assets and require both PGE and PacifiCorp to provide to the Commission the final book entries associated with the sale within 60 days of close of the transaction.

PGE-PAC UP 420 57kV Line Sale