

ORDER NO.

ITEM NO. CA2

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 11, 2016**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: October 3, 2016

TO: Public Utility Commission

FROM: Max St. Brown ^{MSB}

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 343) Requests approval of the purchase of overhead 115kV line and all associated equipment from Pacific Power.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the application by Portland General Electric (PGE or Company) to purchase of 2,460 circuit feet of overhead 115kV line installed in Portland, OR and all associated equipment from Pacific Power, subject to the following conditions:

1. The Company shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
2. The final journal entry recording the transaction shall be submitted to the Commission within 60 days after the transaction closes.

DISCUSSION:

Issue

Whether the Commission should approve PGE's purchase of overhead 115kV line and all associated equipment from Pacific Power.

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Applicable Law

ORS 757.485 provides, in relevant part, a public utility will not, without the Commission's approval, directly or indirectly, acquire or become the owner of any property with a value in excess of \$10,000 that is used by another utility for utility purposes. OAR 860-027-0025(1)(l) requires the applicant to show that the property sale will be consistent with the public interest. The Commission has interpreted the phrase "consistent with the public interest" to require a showing of "no harm to the public." See, e.g. *In the Matter of the Application of PacifiCorp*, Order No. 00-112 at 6 (2000); *In the Matter of the Application of Portland General Electric*, Order No. 99-730 at 7 (1999).

Discussion and Analysis

On June 27, 2016 PGE filed its application seeking approval to purchase overhead 115kV line and all associated equipment from Pacific Power. PGE is constructing a new substation (Marquam) in-between an existing PGE substation (Urban) and a Pacific Power substation (Lincoln). Pacific Power owns the overhead 115kV line between the Urban and Lincoln substations. PGE is proposing to purchase a 2,460 circuit-foot portion of that overhead 115kV line representing the portion to span between two PGE substations – Urban and Marquam. Pacific Power will maintain ownership of the remaining portion of the line between Marquam and Lincoln.

Before determining this purchase was its best option, PGE considered constructing a new overhead line or practicing shared facility use with Pacific Power. PGE did not pursue constructing a new overhead line due to the high cost of building in the congested location, which is near the I-405 interchange in Portland. PGE did not pursue shared facility use because "using this strategy would introduce additional system risk due to multiple lines having a common failure point."¹

Staff issued seven information requests and spoke with the Company about the differences in the sales price under different pricing methodologies. For this transaction, the Company uses a net book methodology. Due to the fact that the Company did not investigate thoroughly market prices for the currently installed equipment as is, Staff inquired about the sales price using the method applied in docket UM 310.² In that docket, plant was priced at new plant prices and then depreciated given the length of service.³ PGE indicated that computing the price under that pricing methodology would require information that PGE does not have access to because PGE is not the seller in the transaction. Nonetheless, PGE indicated that for future

¹ See PGE's response to Staff DR 1, attached as Appendix A.

² It is clear that the purchase price is below newly-installed equipment; however, the equipment being purchased is not new.

³ See PGE's amended application in UP 310 at 3, available at: <http://edocs.puc.state.or.us/efdocs/HAS/up310has134957.pdf>

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sales where PGE is the seller, and the market price is not available, PGE will work with Staff to provide the sales price using the methodology in PGE's amended UP 310 application except that no deflation adjustment will be utilized.⁴

Staff investigated the following issues:

1. Scope and Terms of the Asset Purchase Agreement
2. Allocation of Gain
3. Public Interest Compliance

Scope and Terms of the Asset Purchase Agreement

The asset purchase agreement, dated April 1, 2016, appears to be a comprehensive contract with fairly standard terms governing the sale from Pacific Power to PGE. Exhibit A of the asset purchase agreement details the related equipment to be transferred with the overhead 115kV line. The purchase price indicated in the asset purchase agreement is \$ 59,485.77, which represents the net book value of the assets to be transferred.

Allocation of Gain

PGE will add the purchase price of the asset to its electric plant-in-service. There is no allocation of gain for PGE because PGE is the buyer not the seller. In a future filing, Pacific Power will provide notice of the sale to the Commission per ORS 757.480(2).

Public Interest Compliance

As stated, the Commission customarily applies a no harm standard with regard to the public interest compliance of property sales. This exchange of assets from Pacific Power to PGE should not increase costs to customers, and, for PGE customers, in fact represents a lower cost alternative to building a new overhead 115kV line. The sales price, based on net book value, is lower than the cost of PGE building a new overhead line, thus PGE customers are not harmed.

Conclusion

Staff finds approval of the purchase to be consistent with the public interest and recommends the Commission approved the proposed purchase of overhead 115kV line and all associated equipment subject to the two conditions recommended by Staff above.

⁴ Staff does not mean to imply that the "adjusted" price methodology in UP 310 is a reasonable basis (no deflation adjustment) by which to price property. However it has been used on an exception basis.

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The Company has had the opportunity to review this memorandum and has stated no objections.

PROPOSED COMMISSION MOTION:

Approve the purchase of overhead 115kV line and all associated equipment described in the Company's Application, subject to the three conditions recommended by Staff.

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Appendix A

July 25, 2016

TO: Kay Barnes
puc.datarequests@state.or.us

FROM: Patrick Hager
Manager, Regulatory Affairs

**PORTLAND GENERAL ELECTRIC
UP 343
PGE Response to OPUC Data Request No. 001
Dated July 11, 2016**

Request:

Please refer to page 1 of the initial application. Please provide all analysis that has led PGE to decide against constructing new overhead power lines in or out of Marquam. Please include all workpapers in digital spreadsheet format with cell formulas intact.

Response:

PGE objects to this request on the basis that it is overly broad and unduly burdensome. Without waiving its objection, PGE replies as follows:

The Marquam substation is located in a very congested area, rendering the addition of new overhead transmission prohibitive. Due to the existing PacifiCorp (PAC)-owned transmission lines along the east and west property lines and the location of the I-405 interchange along the north property line, erecting new poles and overhead wires would be extremely difficult and costly, if not impossible. PGE briefly discussed shared facility use with PAC; however, it was determined, that using this strategy would introduce additional system risk due to multiple lines having a common failure point. PGE and PAC finally came to terms with utilizing the existing PAC Lincoln-PGE Urban 115kV line – the line will be separated along the west side of the Marquam substation property and land on separate bus positions at Marquam substation. This separation effectively creates two discrete lines (PGE Marquam-PGE Urban 115kV line, and the PACW Lincoln-PGE Marquam 115kV line), adding redundancy and reliability to the system.

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