

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1050

In the Matter of

PACIFICORP, dba PACIFIC POWER,

ORDER

Petition for Approval of the 2017 PacifiCorp
Inter-Jurisdictional Allocation Protocol.

DISPOSITION: PETITION FOR ONE-YEAR EXTENSION OF 2017
PROTOCOL GRANTED; ACKNOWLEDGMENT OF
REQUIREMENTS OF SECTION XIV ¶3 OF 2017 PROTOCOL
GIVEN; OREGON-ONLY INVESTIGATION OPENED

I. SUMMARY

In this order, we grant the petition, filed by PacifiCorp, dba Pacific Power, to extend the term of the 2017 Protocol for one additional year, subject to conditions addressed below. We also acknowledge that PacifiCorp has met the requirements of the 2017 Protocol to provide certain results of its assessment of alternative inter-jurisdictional allocation methods. Finally, we open an Oregon-specific investigation into PacifiCorp's cost allocation issues.

II. INTRODUCTION

A. 2017 Protocol

PacifiCorp provides retail electric service in six western states. The company uses a multi-state process (MSP) to develop an allocation protocol that divides total system costs among the states.

Last year we adopted the 2017 Protocol, the fourth in a series of multi-state allocation protocols.¹ The 2017 Protocol was signed by PacifiCorp, Commission Staff, the Oregon Citizens' Utility Board (CUB), and was adopted over the objections of the Industrial Customers of Northwest Utilities (ICNU).

¹ Order No. 16-319 more fully describes the 2017 Protocol and includes the 2017 Protocol as Appendix A (Aug 23, 2016).

The 2017 Protocol provides that it will expire on December 31, 2018, unless all state commissions that approved the 2017 Protocol (Idaho, Oregon, Utah, and Wyoming) determine, no later than March 31, 2017, that a one-year extension is appropriate. The 2017 Protocol also states that PacifiCorp commits to continued evaluation of alternative inter-jurisdictional allocation methods, including consideration of corporate structure alternatives and divisional allocation methodologies. The 2017 Protocol states that PacifiCorp will distribute its analysis no later than March 31, 2017, or risk financial penalties.

The 2017 Protocol contains two key financial terms: the embedded cost differential (ECD or hydro endowment) and the equalization adjustment. The 2017 Protocol modified Oregon's ECD by instituting a floor of \$8.238 million and a cap of \$10.5 million for the first general rate case filed under the 2017 Protocol.² The 2017 Protocol also contained a negotiated annual equalization adjustment of \$9.07 million (\$2.6 million for Oregon) representing approximately two-tenths of one percent of each state's annual revenue requirement. The equalization adjustment was intended to reduce the shortfall the company experienced under the 2010 Protocol.

B. PacifiCorp's Petition

On January 31, 2017, PacifiCorp filed a petition making two requests. First, PacifiCorp requests that we extend the 2017 Protocol for one additional year, through December 31, 2019. PacifiCorp states that a one-year extension of the 2017 Protocol will enable it to continue working on a permanent allocation proposal. The company explains that it has developed a new allocation concept that would achieve similar results for generation and allow for state-specific policies (presumably, the Coal Life Evaluation, Allocation & Realignment, or CLEAR model referenced by Staff). PacifiCorp wishes to continue working on its new allocation concept and believes this work justifies a one-year extension of the 2017 Protocol. The company states that when it presented its results to the Commissioner Forum on January 25, 2017, there was a general sentiment that a permanent allocation proposal would not be finalized before the 2017 Protocol expires at the end of 2018.

Second, PacifiCorp requests that we acknowledge that the company has met its obligation to evaluate inter-jurisdictional allocation methods with respect to corporate structure alternatives, a negotiated Oregon-specific term of the 2017 Protocol. PacifiCorp explains that it has met this requirement by presenting alternative allocation studies, specifically its analysis of structural separation, prior to March 31, 2017.

C. Position of the Parties

Staff, CUB, ICNU, and Sierra Club filed answers to PacifiCorp's petition. In sum, Staff and CUB are not opposed to an extension if, among other things, we take steps to open an

² The ECD or hydro endowment is calculated based on the difference between the total cost of the company's northwest hydro facilities and the cost of all other company resources in service prior to 2005.

Oregon-specific investigation, while ICNU and Sierra Club oppose the extension. All parties support (or are indifferent to) acknowledgment that PacifiCorp has met its obligation to present analysis of alternative inter-jurisdictional allocation methods.

Regarding the one-year extension, Staff states that it would support the one-year extension if it results in a lower revenue requirement than the default protocol. CUB is indifferent to the extension, but supports it if it allows this Commission and the parties to focus on an Oregon-only investigation into cost allocation. ICNU opposes the extension because of the \$2.6 million annual equalization adjustment and because an extension is not consistent with the reasoning of Order No. 16-319. Sierra Club opposes the extension because it believes we must focus now on how coal costs will be removed from Oregon rates, as provided in Senate Bill 1547.

PacifiCorp responds that the allocation issues are complex and unlikely to be resolved before the 2017 Protocol expires and that the extension is necessary to develop an equitable allocation method. PacifiCorp answers Staff by stating that, in 2019, Oregon would receive a \$5.9 million ECD benefit under the 2017 Protocol versus the Revised Protocol. PacifiCorp maintains that Oregon customers would benefit based on the ECD parameters in the 2017 Protocol, and the other reasons for approving the 2017 Protocol (equitable sharing among the states, and cost-recovery for the company) continue to apply to the one-year extension.

Regarding the process going forward, Staff, CUB, ICNU, and Sierra Club all support opening of a separate, Oregon-only investigation. CUB and Sierra Club believe that SB 1547 and other factors change the interstate cost allocation of coal plants both before and after 2030. Staff, CUB, and ICNU all believe an Oregon-only investigation is needed so that parties can independently analyze PacifiCorp's shortfall and Oregon-specific issues, outside of PacifiCorp's MSP presentations which address all six states. Staff asserts that the company should focus on Oregon-specific issues (not just six-state MSP issues) and asks that we direct PacifiCorp to include years after 2030 in its analysis of the CLEAR model. PacifiCorp responds that UM 1050 is an Oregon-specific docket, that the company provides intervenor funding for CUB and ICNU, the company responds to ongoing discovery in UM 1050, and the Commission could schedule an additional Commission workshop in UM 1050 to provide guidance during MSP negotiations.

III. RESOLUTION

We make three decisions. First, we agree to extend the 2017 Protocol for one additional year, through 2019, so that PacifiCorp and the parties may continue their work in docket UM 1050 on developing a new cost allocation concept. Although we previously indicated that we were not inclined to grant a one-year extension when we approved the 2017 Protocol,³ we support PacifiCorp's efforts, as presented at the January Commissioner Forum, to develop a new allocation proposal that allows for state-specific policy initiatives. In light of this development, we find good cause to extend the 2017

³ See Order No. 16-319 at 6.

Protocol for an additional year to allow the continued development of this new allocation proposal. We recognize the complexity of developing a new allocation concept and we ask the company and the parties to continue near-term work so that a complete proposal may be considered at the end of 2018 or beginning of 2019.

Our extension of the 2017 Protocol, however, is conditioned upon similar support of the 2017 Protocol by the Idaho, Utah, and Wyoming Commissions, as provided in the 2017 Protocol.⁴ This requires that each of these states also approve PacifiCorp's petition to extend the 2017 Protocol, without additional amendment or modification. If any of these states fails to grant PacifiCorp's petition for an extension, our approval granted here will be void under the terms of the 2017 Protocol.

Second, we find that PacifiCorp has met the requirements of Section XIV, paragraph 3 of the 2017 Protocol by timely providing the results of its assessment of alternative inter-jurisdictional allocation methods, including a corporate structural alternative. Accordingly, we acknowledge that financial penalties in the 2017 Protocol are not warranted.

Third, we formally open a separate investigation into PacifiCorp's inter-jurisdictional allocation to conduct additional analyses to focus on Oregon-specific issues. When we approved the 2017 Protocol in Order No. 16-319, we indicated that we would open an Oregon-specific investigation, and recognize that Staff has already taken informal steps in response to that directive. We now formally open that investigation, which will be separately docketed as UM 1824, *In the Matter of Public Utility Commission of Oregon, Investigation into PacifiCorp, dba Pacific Power's, Oregon-Specific Cost Allocation Issues*.

We expect this Staff-led investigation to proceed in parallel with PacifiCorp's on-going development of a new MSP proposal in docket UM 1050. Our goal for this investigation is to explore allocation approaches consistent with cost-causation principles that are reasonable for Oregon customers even as we continue to work with the broader MSP proposals.

Although this investigation may likely require contested case proceedings to develop an evidentiary record for final Commission action, we direct Staff to initially lead the investigation as a non-contested case proceeding. We anticipate that Staff will start by conducting a series of workshops to identify key Oregon-specific issues, including potential allocation options to consider and unique allocation issues stemming from SB 1547. We expect that the company will cooperate with all relevant requests for information from all participants, and give Staff the authority to help direct the proper scope of this investigation. We direct Staff to report on the progress of its investigation at a Public Meeting no later than six months after issuance of this order.

⁴ Order No. 16-319, Appendix A at 14 (Interdependency Among Commission Approvals).

To close, we underscore that Oregon retains significant differences of opinion with the other three states as to several key allocation issues, such as use of a rolled-in method of inter-jurisdictional allocation and considerations arising from the mandate in SB 1547 that PacifiCorp remove coal costs from Oregon rates by January 1, 2030. We expect and intend that the culmination of our Oregon-specific investigation into PacifiCorp's inter-jurisdictional allocation will be a long-term Oregon resolution of these key underlying issues.

IV. ORDER

IT IS ORDERED that:

1. The 2017 Protocol, adopted in Order No. 16-319, is extended through December 31, 2019, subject to the conditions stated in this order.
2. PacifiCorp, dba Pacific Power, has met the requirements of Section XIV, paragraph 3 of the 2017 Protocol by timely providing the results of its assessment of alternative inter-jurisdictional allocation methods, including a corporate structural alternative.
3. A separate investigation, docket UM 1824, *In the Matter of Public Utility Commission of Oregon, Investigation into PacifiCorp, dba Pacific Power's, Oregon-Specific Cost Allocation Issues* is opened.

Made, entered, and effective MAR 29 2017.



Lisa D. Hardie
Chair



Stephen M. Bloom
Commissioner



A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.