ORDER NO. 17 456

ENTERED NOV 08 2017

# BEFORE THE PUBLIC UTILITY COMMISSION

# OF OREGON

UM 1824

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|---|---|
| In the Matter of<br><br>PUBLIC UTILITY COMMISSION OF OREGON,<br><br>Investigation into PacifiCorp, dba Pacific Power's Oregon-Specific Cost Allocation Issues. | ORDER |

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

This order memorializes our decision, made and effective at our November 7, 2017 Regular Public Meeting, to adopt Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

Dated this 8 day of November, 2017, at Salem, Oregon.

**Lisa D. Hardie**
Chair

**Stephen M. Bloom**
Commissioner

**Megan W. Decker**
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 Circuit Court for Marion County in compliance with ORS 183.484.

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ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 7, 2017

REGULAR X CONSENT ____ EFFECTIVE DATE NA

DATE: November 1, 2017

TO: Public Utility Commission

FROM: George Compton and Max St. Brown

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PACIFICORP: (Docket No. UM 1824) Requested report back to the Commission whether issues raised by PacifiCorp in its September 25, 2017 letter filed under Docket UM 1824 should be considered now, or later in 2018.

## STAFF RECOMMENDATION:

Staff recommends that the issues raised by PacifiCorp in its letter filed September 25, 2017 in UM 1824 should be considered in 2018, and in the context of substantive cost allocation proposals.

## DISCUSSION:

Issue

Whether the issues raised by PacifiCorp (or Company) in its September 25, 2017 letter filed under Docket UM 1824 should be considered now, or later in 2018.

Background and Analysis

On September 25, 2017, in response to Staff's status update to the Commission in docket UM 1824, PacifiCorp filed written comments with the Commission that set forth the status of PacifiCorp's MSP discussions within the context of the broad review working group (BRWG), and requesting clarification from the Commission on the goals and scope of the UM 1824 Oregon-only investigation.

On October 11, 2017, Administrative Law Judge (ALJ) Rowe issued a Scheduling Memorandum that directed the parties to discuss PacifiCorp's request for clarification as to the goals and scope of UM 1824:

> PacifiCorp suggests that any recommended allocation methodology for Oregon, if proposed, should include a thorough discussion of the impact of Senate Bill 1547, whether the proposal complies with Commission precedent and would result in just and reasonable rates, and address any legal impediments to a proposed allocation methodology. PacifiCorp also requests clarification that the scope of this proceeding does not include revisiting the Commission's approval of the 1989 merger of PacifiCorp [Pacific Power & Light or PP&L] and Utah Power & Light [UP&L].[1]

The parties were initially scheduled to meet on October 25, 2017; however, that meeting was rescheduled to Friday, October 27th. During this meeting, the parties discussed the matters raised in PacifiCorp's comments and ALJ Rowe's scheduling memorandum. Staff anticipates that the parties to UM 1824 will provide either oral or written comments that set forth their respective positions on these issues.

*1. Goals of UM 1824*

During the meeting, Staff stated that it agrees with and believes the goal of this proceeding was set forth by the Commission in Order 17-124. In that Order, the Commission set forth its expectations for the Oregon-only investigation:

> 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 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.[2]

The Commission went on to state that:

> To close, we underscore that Oregon retains significant differences of opinion with the other three states [Utah, Idaho, Wyoming] as to several key

[1] UM 1824 – Scheduling Memorandum dated.
[2] Order 17-124 at 4 (emphasis added).

> allocation issues, such as the use of 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.[3]

In accordance with the above-defined goals, Staff and other parties to this proceeding have participated in a series of workshops, engaged in discovery with the Company, and have begun work on allocation methodology alternatives that address Oregon-specific concerns. Staff continues to believe that the goals and scope articulated by the Commission in Order 17-214 provide ample and appropriate guidance for this proceeding.

*2. Scope*

As workshops, discovery and analysis continues into 2018, Staff anticipates developing a deeper understanding of the Company's issues and how well candidate cost allocation methods address these issues. At present, Staff and parties simply do not have the requisite data and information to make this evaluation. At this early point in the process, Staff and parties are still in need of data from the Company in order to evaluate potential methodologies. Information requests are presently being submitted and responded to (perhaps after some clarification). The information and data represented by the IR responses are key in assisting Staff and ICNU in developing the key elements of potential alternative allocation methodologies.[4]

In its September 25th comments, PacifiCorp's generally raised concerns that any alternative methodology should address Oregon energy policies (such as the RPS, SB 1547, direct access, etc.), produce fair, just and reasonable rates, and consider and address prior Commission decisions related to allocation approvals, merger approvals, prudence of capital investments, and used and useful determinations. The parties discussed these issues at the October 27th meeting, and generally agreed that these considerations should play a role in the development of any potential allocation methodology. For example, compliance with SB 1547 is absolutely essential with regard to whatever alternative methodology a party will ultimately promote. Commission precedent will be taken into consideration, and any prospective legal impediments fully addressed. Staff also clarifies that its interest in "merger benefits" is not intended to question the approval of the merger but only to use the terms of the merger to understand how the costs now being allocated to Oregon and the other PP&L states comport with the cost-causation notion(s) that Staff will

[3] Order 17-124 at 5.

[4] At this time, Staff believes three more rounds of information requests beyond those currently outstanding should suffice to enable us to assemble the essential elements of our proposal.

proffer in this docket. Of course, any cost allocation methodology offered by Staff and the other parties will maintain "just and reasonable rates" as a pre-eminent consideration.

However, while the parties can agree that these are important considerations in general, Staff asserts that it does not make reasonable sense to discuss how a cost allocation methodology is expected to comply with those criteria without first forming a clear and complete understanding what is embodied in that methodology. It is that process of gaining greater understanding and clarity amongst potential methodologies that Staff and parties are currently undertaking in UM 1824. Accordingly, Staff finds that these issues are best substantively addressed if and when a specific allocation methodology is proposed. Staff also finds that the parties may have differing opinions as to how and whether these considerations are achieved by a methodology, and therefore are best addressed through the contested case process. It is Staff's objective that its proposal go beyond simply addressing a "long-term *Oregon* [added emphasis] resolution of these key underlying issues," and will instead be found to be just and reasonable on a fair-minded, objective basis before all of the states' commissions.

*3. Timing*
PacifiCorp also raised questions and seeks clarity on the timing and process of UM 1824 in consideration of the larger MSP process. PacifiCorp raised concerns about a contested case process in UM 1824 that would coincide with the negotiation process for multi-state MSP.

Staff understands PacifiCorp's concern regarding the timing of a contested case in UM 1824 and how that might impact negotiations in the larger MSP process. Staff is still discussing what it considers to be the best path forward in light of this concern, and proposes that this be addressed at a future public meeting.

Conclusion

While much has been accomplished in Staff's preparation of an alternative cost allocations approach that is responsive to Oregon-specific matters and concerns, much remains to be done. The issues raised by PacifiCorp in its letter filed September 25, 2017 in UM 1824 are important but best addressed in a tangible way in the context of a well-developed cost allocations proposal. Staff is looking to present such a proposal relatively early in 2018. Embodied in that presentation will be discussions of each of PacifiCorp's issues.

**PROPOSED COMMISSION MOTION:**

Consider in 2018, and within the context of a proposed cost allocation methodology, the issues raised by PacifiCorp in its letter filed September 25, 2017 in UM 1824.

pacificorp um 1824