

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 327

In the Matter of

PACIFICORP, dba PACIFIC POWER,

2016 Power Cost Adjustment Mechanism.

ORDER

DISPOSITION: STIPULATION ADOPTED

I. SUMMARY

In this order, we adopt the parties' stipulated agreement that the 2016 actual power costs for PacifiCorp, dba Pacific Power, were within the deadband of the company's power cost adjustment mechanism (PCAM) and that there should be no change in customer rates.

II. BACKGROUND

In Order No. 12-493, we established a power cost adjustment mechanism (PCAM) for PacifiCorp to work in conjunction with the company's Transition Adjustment Mechanism (TAM). The PCAM is designed to allow the company to recover or refund the difference between actual net power costs (NPC) and the forecast NPC approved in the TAM and included in customer rates.¹ This docket is PacifiCorp's fourth PCAM filing before the Commission.²

¹ See *In the Matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 246, Order No. 12-493 at 14-15 (Dec 20, 2012) (establishing features of PacifiCorp's PCAM).

² See *In the Matter of PacifiCorp, dba Pacific Power, 2013 Power Cost Adjustment Mechanism*, Docket No. UE 290, Order No. 14-357 (Oct 16, 2014); *2014 Power Cost Adjustment Mechanism*, Docket No. UE 298, Order No. 15-380 (Nov 25, 2015); *2015 Power Cost Adjustment Mechanism*, Docket No. UE 309, Order No. 16-459 (Nov 30, 2016) (all orders adopting stipulations, 2013 and 2014 PCAM filings resulted in no rate change due to the earnings test, and 2015 PCAM filing resulted in no rate change due to the deadband).

PacifiCorp's PCAM contains a deadband, sharing mechanism, earnings test, and amortization cap.³ The asymmetric deadband requires the company to absorb some normal variation of power costs, and is set at a negative annual power cost variance of \$15 million and a positive annual power cost variance of \$30 million. Any amount above or below the deadband is subject to the sharing mechanism and earnings test. PacifiCorp calculates its PCAM, and any resulting adjustment is reflected in its tariff Schedule 206.

The sharing mechanism provides PacifiCorp the incentive to manage costs effectively by allocating 10 percent of the remaining variance to PacifiCorp and the balance to customers. The earnings test, which helps guard against over- and under-earning, eliminates any power cost adjustment if the company earns within plus or minus 100 basis points of its allowed return on equity (ROE). Finally, an amortization cap limits amortization of deferred amounts under the PCAM in any year to 6 percent of PacifiCorp's revenues for the preceding calendar year.

The Industrial Customers of Northwest Utilities (ICNU), the Oregon Citizens' Utility Board (CUB), and Commission Staff participated in this docket. ICNU and Staff filed detailed initial testimony, followed by all parties filing a joint stipulation and supporting testimony.

III. PARTIES' FILINGS

PacifiCorp's initial PCAM filing showed 2016 actual net power costs (NPC) were below base costs by \$60,189 on an Oregon-allocated basis. The company's base NPC were set in the 2016 TAM in docket UE 296. PacifiCorp stated that, because the \$60,189 PCAM variance is within the negative \$15 million deadband, the company would absorb the difference and there would be no rate adjustment. PacifiCorp's filing also showed that the company's 2016 earned ROE was 9.87 percent, and its allowed ROE is 9.80 percent.

In pre-filed testimony, ICNU and Staff disputed certain aspects of PacifiCorp's filing. First, both parties questioned the prudence of costs associated with the recovery effort and abandonment of the Joy Longwall mining system. ICNU stated that PacifiCorp did not make a reasonably adequate geological assessment when making the decision to use the Joy Longwall at Bridger Coal Company. Staff stated that improper operations led to the Joy Longwall failure, including insufficient staffing, communication, training, and inconsistent mining practices. Both ICNU and Staff acknowledged, however, that inclusion or exclusion of Joy Longwall costs would not affect PCAM results due to the deadband and earnings test. ICNU recommended that the Commission explicitly state

³ Portland General Electric Company's PCAM contains the same components. See e.g., *In the Matter of Portland General Electric Company, 2014 Annual Power Cost Variance Mechanism*, Docket No. UE 299, Order No. 15-317 (Oct 15, 2015).

that it makes no finding as to the prudence of actual NPC reflected in the PCAM calculation. Staff asked that we order PacifiCorp to remove the Joy Longwall costs from the PCAM actual NPC.

Staff also filed testimony on rate of return costs related to the Energy Imbalance Market (EIM). Staff explains that PacifiCorp forecasts three types of EIM costs in the TAM: pre-tax return on rate base, operation and maintenance (O&M) expense, and depreciation expense. Like all NPC items, these EIM costs are potentially subject to true-up through the PCAM deferral, if the company under-recovers beyond the deadband, sharing mechanism, earnings test, and amortization cap. Staff recommended that the EIM return on rate base be removed from the PCAM calculation. Finally, Staff commented on the PCAM filing requirements, stating that PacifiCorp's PCAM filings should include direct testimony covering any unusual expenses in the PCAM year. Staff also asked the Company to provide workpapers with a differential worksheet showing actual minus base power costs for each cost category.

IV. STIPULATION

PacifiCorp, ICNU, CUB, and Staff submitted a stipulation and joint supporting testimony and recommend we adopt it in its entirety.⁴ In the stipulation, the parties agree that the company's PCAM calculation for 2016 complies with Order No. 12-493 and results in no change to existing rates. PacifiCorp also agrees to three substantive points in the stipulation, regarding EIM costs, PCAM filing requirements, and treatment of the Joy Longwall costs.

First, PacifiCorp removes EIM rate of return costs from the PCAM in this PCAM and in future PCAM filings. The costs will remain in the NPC set in the TAM proceeding, but will no longer be subject to potential true-up in the PCAM. The revised 2016 PCAM calculations are attached to the settlement and show actual NPC of \$49,012 below base NPC.

Second, PacifiCorp will supplement future PCAM filings with direct testimony covering any unusual expenses and large deviations of actual NPC from forecasted NPC. PacifiCorp will also provide a differential worksheet showing actual minus base power costs for each category in the PCAM on a gross cost and per mega-watt hour (MWh) unit basis.

⁴ The stipulation is attached as Appendix A.

Finally, the parties recommend that we not make a finding on the prudence of the Joy Longwall costs that were booked in 2016 for the purpose of setting PCAM rates. The parties agree that the company's PCAM results in no change to existing rates, regardless of whether the Joy Longwall costs are included or excluded. PacifiCorp agrees to exclude the Joy Longwall recovery and abandonment costs from its 2016 NPC referenced in future TAM or other NPC proceedings because a prudence determination was not made in relation to these costs. The parties' joint testimony briefly explains how the Joy Longwall partially sank and tipped in the Jim Bridger coal mine, and the company's recovery efforts to pull the Joy Longwall out of the soft claystone floor.

V. DISCUSSION

The 2016 PCAM results in no rate change. The parties analyzed PacifiCorp's PCAM filing and workpapers, and negotiated a settlement on three substantive issues. PacifiCorp agreed to remove its EIM rate of return costs from the 2016 and future PCAM filings, meaning that EIM rate of return costs will continue to be included in NPC set in the TAM proceeding, but will be excluded from the costs that are potentially subject to true-up in the PCAM if the company were to significantly under-recover actual NPC. PacifiCorp also agreed to provide more detail in its future PCAM filings on deviations from the forecasted NPC set in the TAM. We welcome this additional explanation in future PCAM filings, as we are making a more concerted effort to follow and understand the accuracy of forecast NPC set in annual TAM proceedings.

We also support the parties' recommendation that we make no finding and take no position on the prudence of the Joy Longwall recovery and abandonment. The parties' joint testimony explains that these costs were contested in Wyoming, and we do not reach the prudence of the costs here. It is unnecessary to address the Joy Longwall costs here because, as the parties have explained, any adjustment to NPC would not exceed our PCAM deadband or earnings test.

We adopt the stipulation in its entirety.

VI. ORDER

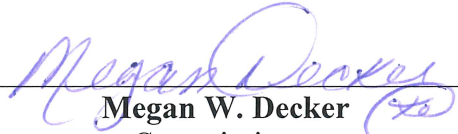
IT IS ORDERED THAT:

1. The stipulation between PacifiCorp, dba Pacific Power; Industrial Customers of Northwest Utilities; the Oregon Citizens' Utility Board; and Staff of the Public Utility Commission of Oregon, attached as Appendix A is adopted.

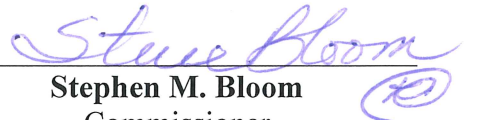
2. PacifiCorp, dba Pacific Power's Schedule 206 rates should continue to be set at zero effective January 1, 2018.

Made, entered, and effective DEC 27 2017.


Lisa D. Hardie
Chair


Megan W. Decker
Commissioner




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.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 327

In the Matter of

PACIFICORP d/b/a PACIFIC POWER

2016 Power Cost Adjustment Mechanism

STIPULATION

INTRODUCTION

1. PacifiCorp d/b/a Pacific Power (PacifiCorp or Company), Staff of the Public Utility Commission of Oregon (Staff), Industrial Customers of Northwest Utilities (ICNU), and the Oregon Citizens' Utility Board (CUB) (collectively the Stipulating Parties) enter into this Stipulation to resolve all issues in docket UE 327, PacifiCorp's 2016 power cost adjustment mechanism (PCAM). No other party intervened in this docket.

BACKGROUND

2. The Public Utility Commission of Oregon (Commission) approved PacifiCorp's PCAM in Order No. 12-493 in docket UE 246. The PCAM allows the recovery or refund of the difference between actual net power costs (NPC) incurred to serve customers and the base NPC established in the Company's annual transition adjustment mechanism (TAM) filing. The amount recovered from or refunded to customers for a given year is subject to the following parameters:

- Asymmetrical Deadband – Any NPC difference between negative \$15 million and positive \$30 million is absorbed by the Company.
- Sharing Mechanism – Any NPC difference above or below the deadband is shared 90 percent by customers and 10 percent by the Company.

- **Earnings Test** – If the Company’s earned return on equity (ROE) is within plus or minus 100 basis points of the allowed ROE, there is no recovery from or refund to customers.
- **Amortization Cap** – The amortization of deferred amounts are capped at six percent of the revenue for the preceding calendar year.¹

3. On May 15, 2017, PacifiCorp filed its PCAM for calendar year 2016. On an Oregon-allocated basis, actual PCAM costs were \$60,189 below the base PCAM costs established in the 2016 TAM (Docket UE 296), excluding the impact of costs contested by intervenors.

4. On September 6, 2017, Staff and ICNU filed testimony in this proceeding.

5. After application of the deadband, no party recommended a rate change for the 2016 PCAM.

6. The Stipulating Parties held a settlement conference on September 11, 2017. This conference resulted in a settlement in principle subject to Staff's additional review of the data provided and the final language of the testimony and stipulation. On November 3, 2017, the parties agreed to the final language of this stipulation and the accompanying testimony.

AGREEMENT

7. The Stipulating Parties agree that the PCAM calculation for calendar year 2016 complies with the requirements of Order No. 12-493. The Company's PCAM results in no change to existing rates.

8. PacifiCorp will remove rate of return costs related to its participation in the Energy Imbalance Market from the Company's 2016 and future PCAM filings (PCAM). The

¹ *In the Matter of PacifiCorp d/b/a Pacific Power's Request for a General Rate Revision*, Docket No. UE 246, Order No. 12-493 at 15 (Dec. 20, 2012).

1 costs will remain in PacifiCorp's TAM filings, but will not be subject to true-up in the PCAM.
2 The revised PCAM calculations reflecting this change are provided as Attachment A, which
3 shows actual PCAM costs on an Oregon-allocated basis were \$49,012 below the base PCAM
4 costs established in the 2016 TAM (Docket UE 296), excluding the impact of costs contested by
5 intervenors. PacifiCorp may request inclusion of these costs in base rates through an appropriate
6 rate proceeding.

7 9. PacifiCorp will supplement future PCAM filings with direct testimony covering
8 any unusual expenses incurred over the course of the applicable PCAM year and identify and
9 discuss large deviations of actual NPC from forecasted NPC. PacifiCorp will also provide with
10 its workpapers a differential worksheet that produces actual minus base power costs for each
11 separate cost category in the PCAM on a gross cost and per mega-watt hour (MWh) unit basis.

12 10. The Stipulating Parties recommend that the Commission not make a finding on
13 the prudence of the Joy Longwall recovery and abandonment costs that were booked in 2016 for
14 purposes of setting PCAM rates.

15 11. The Stipulating Parties agree that the Company's PCAM results in no change to
16 existing rates, regardless of the Joy Longwall recovery and abandonment costs that were booked
17 in 2016 for purposes of setting PCAM rates.

18 12. PacifiCorp agrees to exclude the Joy Longwall recovery and abandonment costs
19 from its 2016 NPC if referenced in future TAM or other NPC proceedings because a prudence
20 determination was not made in relation to these costs.

21 13. The Stipulating Parties agree to submit this Stipulation to the Commission and
22 request that the Commission approve the Stipulation as presented. The Stipulating Parties agree
23 that this Stipulation will result in rates that meet the standard in ORS 756.040.

1 14. This Stipulation will be offered in to the record as evidence under OAR 860-001-
2 0350(7). The Stipulating Parties agree to support this Stipulation throughout this proceeding and
3 any appeal, provide witnesses to sponsor the Stipulation at hearing, if required, and recommend
4 that the Commission issue an order adopting the Stipulation.

5 15. The Stipulating Parties have negotiated this Stipulation as an integrated
6 document. If the Commission rejects all or any material portion of this Stipulation or imposes
7 additional material conditions in approving this Stipulation, any of the Stipulating Parties are
8 entitled to withdraw from the Stipulation or exercise any other rights provided in OAR 860-001-
9 0325(9). To withdraw from the Stipulation, a Stipulating Party must provide written notice to
10 the Commission and the other Stipulating Parties within five days of service of the final order
11 rejecting, modifying, or conditioning this Stipulation.

12 16. By entering into this Stipulation, no Stipulating Party approves, admits, or
13 consents to the facts, principles, methods, or theories employed by any other Stipulating Party.

14 17. The Stipulating Parties agree that the Stipulation will not be interpreted to reflect
15 the position of any other party on these issues in another jurisdiction. The Stipulating Parties
16 also agree that the Stipulation will not be interpreted to reflect the position of a witness in
17 another jurisdiction, even if that witness has appeared in this docket on behalf of a Stipulating
18 Party.

19 18. This Stipulation is not enforceable by any Stipulating Party unless and until
20 adopted by the Commission in a final order. Each signatory to this Stipulation avers that they are
21 signing this Stipulation in good faith and that they intend to abide by the terms of this Stipulation
22 unless and until the Stipulation is rejected or adopted only in part by the Commission. The
23 Settling Parties agree that the Commission has exclusive jurisdiction to enforce or modify the

1 Stipulation. If the Commission rejects or modifies this Stipulation, the Stipulating Parties
2 reserve the right to seek reconsideration or rehearing of the Commission order under ORS
3 756.561 and OAR 860-001-0720 or to appeal the Commission order under ORS 756.610.

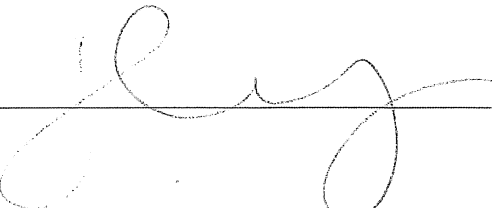
4 19. This Stipulation may be executed in counterparts and each signed counterpart
5 constitutes an original document.

6 This Stipulation is entered into by each Stipulating Party on the date entered below such
7 Stipulating Party's signature.

ORDER NO. 17 524

PACIFICORP

STAFF of the PUBLIC UTILITY
COMMISSION OF OREGON

By: 
Date: November 2, 2017

By: _____
Date: _____

OREGON CITIZENS' UTILITY BOARD

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

By: _____

By: _____

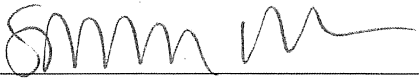
Date: _____

Date: _____

PACIFICORP

STAFF of the PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

By: 

Date: _____

Date: 11/2/17

OREGON CITIZENS' UTILITY BOARD

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

By: _____

By: _____

Date: _____

Date: _____

ORDER NO. 17 524

PACIFICORP

STAFF of the PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

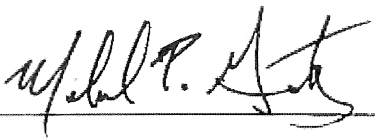
By: _____

Date: _____

Date: _____

OREGON CITIZENS' UTILITY BOARD

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

By: 

By: _____

Date: 11/1/17

Date: _____

ORDER NO. 17 524

PACIFICORP

STAFF of the PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

By: _____

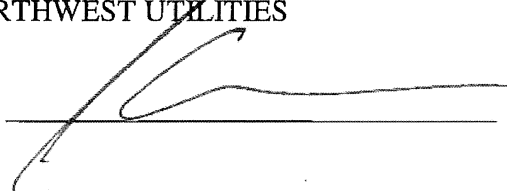
Date: _____

Date: _____

OREGON CITIZENS' UTILITY BOARD

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

By: _____

By: _____


Date: _____

Date: 11-2-17

ORDER NO. 17 524

ATTACHMENT A

Oregon Power Cost Adjustment Mechanism
January 1, 2016 - December 31, 2016
Attachment A - Power Cost Adjustment Mechanism Calculation

Line No.	Reference	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Total
Actual:														
1	Total Company Adjusted Actual NPC	(2.1)												
2	Actual EIM Costs	(4.1)												
3	Actual Other Revenues	(5.1)												
4	Total PCAM Adjusted Actual Costs	Sum Lines 1 - 3												
5	Actual System Retail Load	(6.1)												
6	Actual PCAM Costs \$/MWH	Line 4 / Line 5												
7	Total Company Base NPC	(3.1)												
8	Adjustment for Direct Access	(3.3)												
9	Base EIM Costs	(3.4)												
10	Base Other Revenues	(5.2)												
11	Total PCAM Base Costs	Sum Lines 7 - 10												
12	Base System Retail Load	(6.1)												
13	Base PCAM Costs \$/MWH	Line 7 / Line 12												
14	System PCAM Unit Cost Differential \$/MWH	Line 6 - Line 13												
15	Oregon Retail Load	(6.1)												
Deferral:														
16	Monthly PCAM Differential - Above or (Below) Base	Line 15 * Line 14												
<i>Situs Resource True-Up:</i>														
17	Black Cap Actual	(2.2)												
18	Black Cap Forecast	CY2016 TAM												
19	Total Black Cap Situs Resource True-Up	Line 17 - Line 18												
20	Old Mill Solar Actual	(2.3)												
21	Old Mill Solar Forecast	CY2016 TAM												
22	Total Old Mill Situs Resource True-Up	Line 20 - Line 21												
23	Total Monthly PCAM Differential - Above or (Below) Base	Line 16 + Line 19 + Line 22												
24	Cumulative PCAM Differential - Above or (Below) base													
25	Positive Deadband - ABOVE Base	Order, 12-493												
26	Negative Deadband - BELOW Base	Order, 12-493												
27	Amount Deferrable - ABOVE Deadband													
28	Amount Deferrable - BELOW Deadband													
29	Total Incremental Deferrable	Line 27 + Line 28												
30	Total Incremental Deferral After 90%/10% Sharing Band	Line 29 * 90%												
Energy Balancing Account:														
31	Monthly Interest Rate	Note 1												
32	Beginning Balance	Prior Month Line 35												
33	Incremental Deferral	Line 30												
34	Interest	Line 31 * (Line 32 + 50% x Line 33)												
35	Ending Balance	Σ Lines 32:34												
Earnings Test:														
36	Earned Return on Equity	(7.1)												
37	Allowed Return on Equity	UE 246												
38	100bp ROE Revenue Requirement													
39	Allowed Deferral After Earning Test													
40	Total Deferred													

Notes:
Note 1: 7.621% annual interest rate based on Oregon approved rate of return