ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 21, 2017

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **January 1, 2017**

DATE: February 27, 2017

TO: Public Utility Commission

FROM: Mitchell Moore MPM

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: PACIFIC POWER: (Docket No. UM 1682(3)) Request for an Order re-authorizing deferred accounting related to a reduction in depreciation expense.

STAFF RECOMMENDATION:

Staff recommends that Pacific Power's (PacifiCorp or Company) application for reauthorization to use deferred accounting for a reduction in depreciation expense be approved for 12-months beginning January 1, 2017.

DISCUSSION:

Issue

Whether the Commission should reauthorize PacifiCorp's use of deferred accounting for a reduction in depreciation expense, effective January 1, 2017 through December 31, 2017.

Applicable Rule or Law

PacifiCorp submitted its deferral application on December 23, 2016, pursuant to ORS 757.259 and OAR 860-027-0300. ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. Previous approval of this deferral was most recently granted by Order No. 16-097.

<u>Analysis</u>

In Order No. 14-039, the Commission first approved the Company's request to defer the additional annual Oregon-allocated reduction in depreciation expense from the original levels stipulated to in UM 1647 and approved in Order No. 13-347. The Company requests reauthorization to defer the same for 12 months beginning January 1, 2017 through December 31, 2017, until the revised depreciation expense is included in rates through the Company's next general rate case.

Background
On January 31, 2013, the Company filed an application under ORS 757.140(1) requesting authorization to change depreciation rates applicable to PacifiCorp's depreciable electric plant effective January 1, 2014. This application was docketed as UM 1647.

On March 1, 2013, PacifiCorp filed an application for a general rate revision which was docketed as UE 263. This filing reflected the Company's proposed revised depreciation rates from UM 1647.

In June 2013, joint settlement conferences were convened by the parties to UE 263 and UM 1647. As a result of those discussions, the parties reached a settlement resolving all issues in UM 1647. The parties also resolved the issue of the impact of PacifiCorp's revised depreciation rates on the revenue requirement in UE 263. Exhibit A of the stipulation in UM 1647 reflects the adjustments that reduced the Company's Oregon-allocated depreciation expense in UE 263 by approximately $1.6 million. The stipulation in UE 263 was approved by the Commission on December 18, 2013 in Order No. 13-474.

Description of Expense
After the Commission approved the stipulation in UM 1647, depreciation rates were further reduced due to depreciation filings in the Company's other jurisdictions. As a result of the decrease in rates, Oregon-allocated depreciation expense is approximately $859,000 less on an annual basis.

Reason for Deferral
In accordance with OAR 860-027-0300(4)(b), the Company requests continuation of deferred accounting for the 12 months beginning January 1, 2017.

In the stipulation for UM 1647, the parties noted that PacifiCorp's rates were currently under review by other state Commissions in which PacifiCorp operated. Thus, PacifiCorp agreed "to defer for future inclusion in customer rates any reductions to depreciation expense associated with additional adjustments to depreciation rates for system-allocated assets, except adjustments related to coal generation, adopted in any of those dockets . . . ."[1] The parties also agreed that PacifiCorp would implement the revised depreciation rates effective January 1, 2014. Therefore, PacifiCorp requested to defer the $859,000 reduction to depreciation expense for the 12 months starting January 1, 2014, until the Company's next general rate revision, at which time the modification would be incorporated in rates.

Proposed Accounting
PacifiCorp proposes to account for reduced depreciation expense by debiting general business revenues (FERC Accounts 440-Residential Sales, 442-Commercial and Industrial Sales, and 444-Public Street and Highway Lighting) and crediting Account 254-Other Regulatory Liabilities. Absent deferred accounting treatment, the Company will record the excess depreciation expense recovered in customer rates as general business revenues (FERC Accounts 440-Residential Sales, 442-Commercial and Industrial Sales, and 444-Public Street and Highway Lighting).

Information Related to Future Amortization

- Earnings review – Generally, prior to amortization, an earnings review should be conducted pursuant to ORS 757.259(5). However, because this deferral is a credit, an earnings review is not required.

- Prudence Review – The prudence review for amortization of this deferral should include verification that the reduction to depreciation expense is appropriate. Further, the accounting methodology used to determine the final balance should be verified.

- Sharing – Neither the UE 263 nor the UM 1647 stipulations specify sharing of this reduction in expense. Rather, the Company agrees "to defer for future inclusion in customer rates any reductions to depreciation expense associated with additional adjustments to depreciation rates" as stated in the stipulations.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

[1] *In the Matter of PacifiCorp d/b/a Pacific Power Application for Authority to Implement Revised Depreciation Rates,* Docket No. UM 1647, Order No. 13-347, Appendix A at 11 (Sept. 25, 2013).

Because this deferral is a credit to customers, this three percent test is not applicable.

- Rate Spread/Design – The UE 263 stipulation includes an agreement for rate spread/design related to the approved revenue requirement in the UE 263 proceeding. However, the stipulation does not specifically include rate spread/design treatment related to the amortization of this deferral for a reduction in depreciation expense. This issue should be determined at the time of amortization.

Conclusion

PacifiCorp's application for reauthorization to defer, for future inclusion in customer rates, a reduction in Oregon-allocated depreciation expense of approximately $859,000 plus accrued interest, is in accordance with the stipulation in UM 1647 that was approved in Order 13-347, and meets the requirements of ORS 757.259(2)(e) and OAR 860-027-0300.

For the reasons discussed above, Staff recommends that the Commission reauthorize deferred accounting for the period January 1, 2017 through December 31, 2017.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's application for reauthorization to use deferred accounting for a reduction in depreciation expense for 12-months beginning January 1, 2017.