

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: March 10, 2015

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE January 1, 2015

DATE: February 26, 2015

TO: Public Utility Commission

FROM: Mitchell Moore <sup>M</sup>

THROUGH: Jason Eisdorfer and Marc Hellman <sup>J</sup> <sup>M</sup>

SUBJECT: PACIFICORP: (Docket No. UM 1682(1)) Request for an Order re-authorizing deferred accounting related to a reduction in depreciation expense.

**STAFF RECOMMENDATION:**

I recommend that Pacific Power's application be approved for the deferral period January 1, 2015, through December 31, 2015.

**DISCUSSION:**

On December 24, 2014, PacifiCorp, dba Pacific power (Pacific Power or Company), filed this application pursuant to ORS 757.259(2)(e) and OAR 860-027-0300 requesting re-authorization to defer the annual Oregon-allocated reduction in depreciation expense related to additional reductions to depreciation rates from the levels approved by the Commission in Order No. 13-347. Deferral of this reduction in depreciation expense was originally granted by the Commission in Order No. 14-039. The Company requests re-authorization to defer the same for the 12 months beginning January 1, 2015, 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, and resolved the issue of the impact of Pacific Power's revised depreciation rates on the revenue requirement in UE 263. Exhibit A of the stipulation to UM 1647 reflects the adjustments which 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

Subsequent to the Commission's approval of the stipulation in UM 1647, depreciation rates were further reduced as a result of depreciation filings in the Company's other jurisdictions. As a consequence of the decrease in rates, Oregon-allocated depreciation is approximately \$859,000 less on an annual basis.

#### Reason for Deferral

Parties noted in the stipulation for UM 1647 that the Company's rates were currently under review by other state Commissions in which Pacific Power operates. In the stipulation, Pacific Power agreed "to defer for future inclusion in rates any reduction to depreciation expense associated with additional adjustment to depreciation rates for system-allocated assets, except adjustments related to coal generation, adopted in any of those dockets."

The parties also agreed in the stipulation that PacifiCorp would implement the revised depreciation rates effective January 1, 2014. Therefore, Pacific Power last year 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 will be incorporated in rates.

In accordance with OAR 860-027-0300(4)(b), the Company requests continuation of deferred accounting for the 12 months beginning January 1, 2015.

#### Proposed Accounting

Pacific Power 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).

#### Current Deferral Activity

In accordance with OAR 860-027-0300(4)(a), Pacific Power provided the following information regarding the deferral activity to the date of this application.

<b>2014</b>	Deferral	Interest	Ending balance
Total	(858,791)	(33,466)	(892,257)

#### **Information Related to Future Amortization**

- Earnings review – Generally, prior to amortization, an earnings 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. 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/Rate 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.

Staff Analysis

Pacific Power's application for Commission authorization to defer for future inclusion in customer rates an annual reduction of approximately \$859,000 in Oregon-allocated expense is in accordance with the stipulation in UM 1647 as approved by the Commission in Order 13-347, and meets the requirements of ORS 757.259(2)(e) and OAR 860-027-0300.

For the reasons discussed earlier in this memo, Staff recommends that the Commission authorize deferred accounting for the period January 1, 2015 through December 31, 2015.

**PROPOSED COMMISSION MOTION:**

Pacific Power's application be approved for the period January 1, 2015 through December 31, 2015.