

ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: July 25, 2017

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE May 15, 2017

DATE: July 12, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *mpm*

THROUGH: *Jcfa JE* Jason Eisdorfer and *H* Marc Hellman

SUBJECT: PACIFIC POWER: (Docket No. UM 1693(3)) Requests Reauthorization to Defer Costs Associated With Net Power Cost Variances.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Pacific Power's (PacifiCorp or Company) request for reauthorization to defer costs associated with net power cost variances for the twelve-month period beginning May 16, 2017, to May 15, 2018, and that the Company be instructed to apply Commission Order Nos. 08-263 and 10-279 to calculate the interest to be used for this deferral.

**DISCUSSION:**

Issue

Whether the Commission should approve PacifiCorp's request for reauthorization to defer costs associated with net power cost variances for the twelve-month period beginning May 16, 2017, to May 15, 2018.

Applicable Law

In this filing, the Company seeks reauthorization to defer, for future amortization, the difference between actual annual net power costs and forecasted annual net power costs, in accordance with Order No. 12-493, which established a Power Cost Adjustment Mechanism (PCAM) for PacifiCorp.

A deferral may be authorized under ORS 757.259(2) for a period not to exceed 12 months beginning on or after the date of application.

OAR 860-027-0300 specifies the required contents of an application for deferred accounting, including a description of the expense or revenue for which deferral is requested, the basis for the request, the accounts proposed for recording the amounts to be deferred, an estimate of the amounts to be recorded in the deferred account, and a copy of the notice of the application for deferred accounting.

In its Order Nos. 08-263 and 10-279 the Commission set forth the method to be used to calculate the interest for deferrals such as the one under consideration.

### Analysis

#### *Background:*

In Order No. 12-493, the Commission ordered the adoption of a PCAM for PacifiCorp. The PCAM provides for recognition in rates of the difference, for a given year, between the actual annual net power costs incurred by PacifiCorp and forecast annual net power costs, subject to certain limitations. The Company's PCAM became effective in 2013 with the filing of Schedule 206. According to the Company, its net power cost variances have been insufficient as yet to trigger rate changes under the current PCAM.

According to the Company, reauthorization is necessary to facilitate rate changes under the Company's PCAM if net power cost variances in 2017 exceed the limitations in Order No. 12-493, which include a deadband, a sharing band, and an earnings test.

#### *Reason for Deferral:*

It is the Company's intent with this deferral to minimize the frequency of rate changes or the fluctuation of rate levels or match appropriately the costs borne by and benefits received by customers. Deferrals may be authorized for this purpose under ORS 757.259(2)(e).

#### *Proposed Accounting:*

Following current practice, the proposed deferrals will be debited in subaccounts of FERC Account 182.3 and credited to FERC Account 555 if there is an amount to collect from customers. If there is a refund to customers, PacifiCorp would record the accrued amount to FERC Account 254 and debit FERC Account 555.

#### *Estimated Deferrals in Authorization Period:*

PacifiCorp is unable to provide an estimate of the deferred amount because it is a function of several unknown and unpredictable factors. Although a specific amount cannot be provided, the amount of any deferral will be determined based on the

provisions of Commission Order No. 12-493, i.e. if net power cost variances in 2017 exceed the limitations in the order.

The Company requests that, if approved, deferred amounts will be allowed to accrue interest on the unamortized balance consistent with the treatment of interest rates in Commission Order No. 08-263, and as modified by Order No. 10-279. Staff concurs that these orders establish the appropriate treatment of interest rates.

*Information Related to Future Amortization:*

- Earnings review – An earnings review should be applied to amortization of prudently incurred net power cost variances.
- Prudence Review – A prudence review is required to establish that costs were prudently incurred, and should include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Staff believes that customers would bear the responsibility for all prudently incurred costs.
- Rate Spread/Design – Amortization should be amortized in rates through the PCAM.
- 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. Amortization of the expense associated with this deferral is subject to the three percent test.

Conclusion

PacifiCorp's request for reauthorization is appropriately made under ORS 757.259(2)(e), and the request meets the requirements of OAR 860-027-0300. Staff recommends approval of the request with instructions to apply Commission Order Nos. 08-263 and 10-279 regarding accrual of interest.

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**PROPOSED COMMISSION MOTION:**

Approve PacifiCorp's request for reauthorization to defer costs associated with net power cost variances for a twelve-month period beginning May 16, 2017, and instruct the Company to apply Commission Order Nos. 08-263 and 10-279 to calculate the interest to be used for this deferral.

PAC UM 1693(3)