

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT

PUBLIC MEETING DATE: February 7, 2023

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: January 23, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: PACIFIC POWER:  
(Docket No. UM 1693(8))  
Reauthorization of Deferred Accounting of Net Power Cost Variances.

**STAFF RECOMMENDATION:**

Staff recommends the Public Utility Commission of Oregon (Commission) approve Pacific Power’s (PacifiCorp, PAC, or Company) request for reauthorization to defer costs associated with net power cost (NPC) variances for the twelve-month period beginning May 16, 2022.

**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, 2022 to May 15, 2023.

Applicable Rule or Law

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 addition, the annual variance will be determined under the terms of Order No. 12-493, which includes a deadband, a sharing band, and an earnings test.

## Analysis

### *Background*

On May 16, 2022, PacifiCorp filed an application with the Commission for an order reauthorizing PacifiCorp to defer for later ratemaking treatment annual net power cost variances under Schedule 206, as authorized by Order No. 12-493. PacifiCorp seeks reauthorization of this deferral to facilitate rate changes under its power cost adjustment mechanism if variances in cost elements of the Company's transition adjustment mechanism in 2022 exceed the deadbands and other limitations in Order No. 12-493.

### *Reason for Deferral*

In Order No. 12-493, the Commission ordered the adoption of a power cost adjustment mechanism (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. PacifiCorp's PCAM became effective in 2013 with the filing of Schedule 206.

PacifiCorp is seeking authorization to defer net power cost-variances in excess of the deadbands and other PCAM limitations for possible later inclusion in rates. This deferral is intended to capture the net annual power cost difference exceeding those limitations that will then be amortized in rates through the PCAM.

Additionally, this deferral is filed in accordance with Order No. 12-493 and ORS 757.259(2)(e). This deferral will minimize the frequency of rate changes or the fluctuation of rate levels or match appropriately the costs borne by and benefits received by customers.

### *Proposed Accounting*

PacifiCorp proposes to record the deferred amount by debiting FERC Account 182.3 (Regulatory Assets) and crediting FERC Account 555 (Purchased Power) if there is an amount to collect from customers. If there were a refund to customers, PacifiCorp would record the deferred amount by crediting FERC Account 254 (Regulatory Liabilities) and debiting FERC Account 555 (Purchased Power).

### *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.

*Information Related to Future Amortization*

- Earnings review – An earnings review should be applied to amortization of prudently incurred net power cost variances subject to the Commission’s approved PCAM design.
- 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 prudently incurred costs consistent with the Commission’s approved PCAM design.
- 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

Based on its review of PacifiCorp’s application, Staff concludes that the request for reauthorization is an appropriate use of deferred accounting 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 No. 12-493 regarding accrual of interest.

The Company has reviewed this memo and agrees with its contents.

**PROPOSED COMMISSION MOTION:**

Approve PacifiCorp’s request for reauthorization to defer costs associated with net power cost variances for the twelve-month period beginning May 16, 2022, and ending May 15, 2023.

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