

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 3, 2015

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: October 8, 2015

TO: Public Utility Commission

FROM: Linnea Wittekind LW

THROUGH: Jason Eisdorfer and Marc Hellman IF X

SUBJECT: PACIFIC POWER: (Docket No. UM 1693(1)) Requests Reauthorization to Defer Costs Associated With Net Power Cost Variances.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Pacific Power's (PacifiCorp or Company) request for reauthorization to defer costs associated with net power cost variances for a twelve-month period beginning May 16, 2015.

ISSUE:

The Company requests reauthorization to defer costs associated with net power cost variances under Schedule 206 to facilitate rate changes under the Company's power cost adjustment mechanism (PCAM).

RULE:

The Company makes this filing pursuant to ORS 757.259 and OAR 860-027-0300.

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. Under ORS 757.259(2)(e), after public notice and opportunity for comment, the Commission may authorize deferral for later incorporation in rates amounts that are identifiable utility expenses or revenues, the recovery or refund of which the Commission finds should be deferred "to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers."

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.

Commission Order Nos. 08-263 and 10-279 address the proper interest rate to be applied to a utility's deferred accounts.

DISCUSSION:

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 PCAM for PacifiCorp. This filing fulfills the requirements of OAR 860-027-0300, as described below.

Description of Expense

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 2015 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. Deferral 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 2015 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:

Pacific Power'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.

UM 1693
October 8, 2015
Page 4

PROPOSED COMMISSION MOTION:

The Commission approve Pacific Power's request for reauthorization to defer costs associated with net power cost variances for a twelve-month period beginning May 16, 2015. We further instruct the Company to apply Commission Order Nos. 08-263 and 10-279 to calculate the interest to be used for this deferral.

UM 1693(1)