ITEM NO. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 10, 2018

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **March 11, 2018**

DATE: April 3, 2017

TO: Public Utility Commission

FROM: Mitchell Moore mpm

THROUGH: Jason Eisdorfer and John Crider JE JC

SUBJECT: PACIFIC POWER: (Docket No. UM 1764(2)) Requests Reauthorization of Deferred Accounting Related to a Change in Annual Regulatory Fees.

STAFF RECOMMENDATION:

I recommend that the Commission approve Pacific Power's (PacifiCorp or Company) request to defer costs associated with the incremental difference in the current annual regulatory fee of 0.30 of gross operating revenues, and the costs currently being collected in rates for the twelve-month period beginning March 11, 2018.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's request for reauthorization to defer costs associated with the variance in the annual regulatory fee and the amount collected in rates.

Applicable rule and law

PacifiCorp submitted its deferral application on March 9, 2018, in accordance with 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 are 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. 17-149.

Analysis

Background:
OAR 860-021-0033 requires electric utilities to pay regulatory fees to the Commission each year by April 1. The fee payable by the electric utility is an annual fee rate multiplied by the utility's gross operating revenues derived within Oregon for the previous calendar year. The annual fee rate is set by Commission order entered on or after March 1 of each year.

Senate Bill (SB) 329, enacted in 2015, allows the Commission to set the annual fee to a percentage not to exceed 0.3 percent of utilities' gross operating revenue, which is an increase of .05 percent over the percentage previously allowed. The Commission subsequently initiated a rulemaking proceeding docketed as
AR 591 to increase the fee from 0.250 percent to 0.275 percent. In that proceeding, PacifiCorp requested that the Commission authorize the use of deferred accounting for the difference between the utility's annual fee at the new rate and the annual fee at the previous rate of .25 percent, which is the level reflected in current rates charged to customers.

On February 23, 2016, the Commission issued Order No. 16-067 increasing the regulatory fee from 0.25 percent to 0.275 percent. The Commission declined to address PacifiCorp's request to allow deferred accounting to address the incremental effect of the fee-rate change in in the context of AR 591, but stated that PacifiCorp could make its request in another proceeding. PacifiCorp subsequently sought and was granted authority to defer the incremental portion of the fee over that collected in rates in Order No. 16-153.

On February 27, 2018, the Commission issued Order No. 18-073, setting the annual fee rate at 0.30 percent of the gross operating revenues for electric, natural gas, water, and wastewater utilities.

Description of deferral:
The Company seeks to defer for later amortization into rates the incremental difference between amounts currently collected in rates for the Commission-imposed fee, which is based on a fee of 0.25 percent of gross operating revenues, and the amounts owed under the current fee, which is based on a fee of 0.30 percent of operating revenues.

Proposed Accounting:
PacifiCorp will record deferred costs related to the increase by crediting Commission Fees recorded in FERC Account 928 – Regulatory Commission Expenses and debiting the property sales balancing account, in FERC Account 254 – Other Regulatory Liabilities.

Estimated Deferrals in Authorization Period:
The Company is requesting to defer approximately $663,500 in 2018 associated with the regulatory fee rate for 2018.

Information Related to Future Amortization:

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e).

- Prudence Review – For amortization, the prudence review should be limited to verification of the accounting methodology used to determine the final amortization balance.

- Sharing – PacifiCorp requests that the amounts deferred not be subject to sharing because the annual fees are collected from customers and directly passed through to the Commission. For the reasons discussed more fully below, Staff recommends that there be no sharing between PacifiCorp and its customers for this deferral.

- Rate Spread/Design – Account balances are to be spread though PacifiCorp's property sales balancing account (Schedule 96).

- 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 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 PacifiCorp is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit. The limit for this deferral will be determined at the time of amortization.

Conclusion:

Staff concludes that the Company's application to authorize deferral of the increase in the annual regulatory fee is consistent with ORS 757.259. Staff also supports the Company's decision to amortize the deferred amounts through its existing property sales balancing account.

PacifiCorp asks that the amounts deferred not be subjected to an earnings test. While an earnings review is required prior to amortization of this deferral pursuant to ORS 757.259(5), the Commission is not required to perform an earnings test that could result in sharing of deferred costs between the Company and customers. Staff recommends that deferred amounts not be subject to sharing pursuant to an earnings test for two reasons. First, the PUC fee is collected from customers and directly passed-through to the Commission. Second, the Company's proposal to not subject the deferred amounts to sharing is generally consistent with the treatment allowed by the Commission in Order No. 10-083, wherein the Commission lowered the annual PUC rate and ordered electric and natural gas utilities to defer the difference between the previous rate and the revised rates. In Docket UM 1488, the utilities put forth proposals for amortization of deferred PUC fee credits to customers, which were not subject to sharing from the results of an earnings review.[1]

PROPOSED COMMISSION MOTION:

Approve Pacific Power's request to defer costs associated with the incremental increase in the annual regulatory fee due to the Commission-ordered increase to 0.30 percent from the 0.25 percent currently reflected in rates charged to customers for the twelve-month period beginning March 11, 2018.

PPL UM 1764(2) OPUC Fee Increase deferral

[1] *See In re Amortization Proposals Related to PUC Fee Deferral Ordered in UM 1012*, OPUC Docket No. UM 1488, Order Nos. 10-443 (NW Natural), 10-437 (Cascade), 10-436 (Avista), 10-373 (Idaho Power), 10-372 (PGE), and 10-307 (PacifiCorp) (2010).