

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: September 5, 2023

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A** _____

DATE: August 17, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UM 2159(2))
Reauthorization of deferral accounting for costs related to Wildfire Risk Mitigation Measures and Vegetation Management.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Pacific Power's (PacifiCorp, PAC, or Company) request to defer costs associated with Wildfire Risk Mitigation and Vegetation Measures for the 12-month period beginning June 23, 2023, and ending June 22, 2024.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's requests for reauthorization to defer costs accounting for costs related to Wildfire Risk Mitigation Measures and Vegetation Management.

Applicable Law

In accordance with ORS 757.259, utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs.

OAR 860-027-0300(4) requires the utility to provide certain information in an application to defer, such as reason for the deferral, estimated amount of the deferral, etc.

As part of PacifiCorp's UE 374 rate case, the Commission determined that annual deferral of costs within the Wildfire Mitigation and Vegetation Management Cost Recovery Mechanism (WMVM) is authorized under ORS 7547.259(2)(e) in Order No. 20-473.

In Order No. 22-491, the Commission altered PacifiCorp's WMVM extending the timeline for incremental cost recovery through 2024.

Analysis

Background

On June 23, 2023, PacifiCorp submitted its application in Docket No. UM 2159 for reauthorization of deferred accounting related to Wildfire Risk Mitigation Measures and Vegetation Management.

In Order No. 20-473, the Commission authorized the WMVM for a period of three years. The Order authorized \$30 million in wildfire mitigation and vegetation management O&M expenses in base rates.¹

The WMVM provides an opportunity to recover additional wildfire mitigation costs and vegetation management O&M spend beyond what is included in base rates subject to performance metrics and an earnings test for a period of three years.

In Docket No. UE 399, Order No. 22-491, the Commission approved the First Partial Stipulation, modified the design of the WMVM, and authorized the inclusion of \$50 million in incremental wildfire mitigation and vegetation management expenses in base rates beginning January 1, 2023.² Notably, wildfire mitigation costs associated with PacifiCorp's Wildfire Mitigation Plan are deferred in Docket No. UM 2221, under a separate deferral application.

The Company requests reauthorization to continue deferral of the difference between the \$50 million included in base rates and additional wildfire mitigation costs as well as

¹ Docket No. UE 374, Order No. 20-473, *In the Matter of PacifiCorp's Request for a General Rate Revision, Partial Stipulation Adopted*, p.121 (Dec 18, 2020)
<https://apps.puc.state.or.us/orders/2020ords/20-473.pdf>.

² Docket No. UE 399, Order No. 22-491, *In the Matter of PacifiCorp's Request for a General Rate Revision, First Second and Third Partial Stipulations Adopted* (Dec. 16, 2022)
<https://apps.puc.state.or.us/orders/2022ords/22-491.pdf>.

vegetation management costs incurred as part of the Company's ongoing vegetation management program.³

Estimated 2023 Costs.

In Order No. 22-491, the Commission authorized \$50 million in base rates for non-wildfire mitigation related vegetation management. For 2023, the non-wildfire related vegetation management O&M costs are expected to be approximately \$52 million, or about \$2 million more than is currently authorized in base rates.

Description of expenses

The costs described in this application included inspection and correction of found fire-threat conditions, advanced system hardening and resiliency, expanded automation and protection, improved wildfire detection, enhanced event response capacity, and vegetation management activities, along with other costs to mitigate the risk of wildfires. In addition, On May 5, 2023, the Company filed for cost recovery of the Deferred Amounts from 2022 of \$25.7 million through the WMVM.⁴

Reason for Deferral

ORS 757.259(2)(e) allows the deferral of identifiable utility expenses to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers.

Proposed Accounting

The Company will record Deferred Amounts at Federal Energy Regulatory Commission (FERC) Account 182.3 – Other Regulatory Assets and crediting the incremental operations and maintenance expense to various FERC Accounts including primarily 593.0 – Maintenance Overhead Lines (distribution) and 571.0 – Maintenance Overhead Lines (transmission).

Information Related to Future Amortization

- Earnings review – The Commission will review earnings in accordance with ORS 757.259(5) at the time of amortization. The Commission adopted an earnings test component combined with a performance-based mechanism on vegetation management violations in its order in UE 374, Order No. 20-473, and in UE 399, Order No. 22-491.

³ Id., at 21; The approved stipulation provides that the modified WMVM will apply to requests for recovery under the WMVM filed in 2023 (for 2022 vegetation management and wildfire mitigation costs incremental to \$30 million in base rates), 2024 (for 2023 vegetation management costs incremental to \$50 million in base rates), and, unless PacifiCorp has filed another general rate case with new forecast costs for 2024, 2025 (for 2024 vegetation management costs incremental to \$50 million in base rates)

⁴ See, Docket No. ADV 1501, *PacifiCorp's Advice No. 23-011*, Schedule 94.

- Prudence Review – will be conducted prior to amortization and should include a verification of the accounting methodology used to determine the final amortization balance.
- Sharing – A costs sharing mechanism was not adopted in Order Nos. 20-473 and 22-491, but the Company can bear some costs based on its vegetation management performance and earnings levels.
- Rate Spread/Design – The deferred amortization amount will be spread based on distribution and transmission revenues in proportion to the components for which costs are incurred.
- 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 Pacific Power is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit.

Conclusion

Staff reviewed the Company's application. In Order No. 22-491, the Commission adopted a stipulation that modified PacifiCorp's Wildfire Mitigation and Vegetation Management Mechanism (WMVM) extending the timeline for incremental cost recovery through 2024. Accordingly, Staff recommends the application be approved.

The Company has reviewed a draft of this memo and voiced no concerns.

PROPOSED COMMISSION MOTION:

Approve Pacific Power's application and re-authorization to defer costs associated with Wildfire Risk Mitigation Measures and Vegetation Management for the 12-month period beginning June 23, 2023, and ending June 22, 2024.