

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 1, 2022**

REGULAR **CONSENT** **EFFECTIVE DATE** November 5, 2022

DATE: October 25, 2022

TO: Public Utility Commission

FROM: Mitchell Moore

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

SUBJECT: PACIFIC POWER:
(Docket No. ADV 1394/Advice No. 22-006)
Requests approval to update Schedule 94 - Wildfire Mitigation and
Vegetation Management Cost Recovery Adjustment

STAFF RECOMMENDATION:

Approve Pacific Power's (PacifiCorp, PAC, or Company) Advice No. 22-0062, revising Schedule 94 to recover incremental costs associated with the Wildfire Mitigation and Vegetation Management (WMVM) mechanism, for service rendered on and after November 5, 2022.

DISCUSSION:

Issue

Whether the Commission should approve Advice No. 22-006, PacifiCorp's request to update its Schedule 94 (WMVM) to recover incremental costs authorized for recovery through the WMVM mechanism in accordance with Commission Order No. 20-473.

Applicable Law

ORS 757.205 requires public utilities file to all rates, rules, and charges with the Commission.

ORS 757.210 establishes a hearing process to address utility filings and requires rates be fair, just, and reasonable.

ORS 757.220 provides that no change shall be made in any schedule, except upon 30 days' notice to the Commission prior to the time the changes are to take effect.

OAR 860-022-0025 requires that filings revising tariffs include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

Analysis

Background:

In Order No. 20-473, the Commission authorized PacifiCorp to recover deferred operations and maintenance (O&M) costs and the revenue requirement for incremental wildfire mitigation capital projects placed in service during the prior year.

In its 2020 general rate case docketed as UE 374, PacifiCorp proposed a Wildfire Mitigation Cost Recovery Mechanism to recover capital expenditures related to wildfire mitigation and vegetation management O&M expense in base rates. The resulting Commission Order No. 20-473 approved \$30 million for O&M expense in base rates, and the WMVM, in which incremental capital costs and O&M expense can be deferred. The first \$6.645 million in incremental capital and O&M expenditures above base rates are subject to recovery depending on the application of an earnings test that is applied and adjusted based on the Company meeting performance criteria for vegetation management.

The Commission approved an earnings test consistent with the performance metrics as identified in this table:

Performance Metric	Earnings Test
Below Violation Level I – (75 violations or less)	No earnings test.
At or above Violation Level I, but below Violation Level II (76-150 violations)	Earnings test of UE 374 authorized ROE minus 100 basis points – 8.5%
At or above Violation Level II, but below Violation Level III (151-200 violations)	Earnings test of UE 374 authorized ROE minus 150 basis points – 8.0%
At or above Violation Level III (Over 200 violations)	Earnings test of UE 374 authorized ROE minus 200 basis points – 7.5%

The Commission Order 20-473 also directed the Company to include in the following information its tariff filing:

1. Total incremental vegetation management O&M expenditures;
2. Total incremental wildfire mitigation O&M expenditures;
3. Total incremental wildfire mitigation capital expenditures; and
4. Narrative description of the effect, if any, that the earnings test and performance metrics have on the recovery of incremental costs.

WMVM O&M and Capital Investment Spending – 2021

In its filing, PacifiCorp reported spending \$43.6 million in Oregon allocated O&M expense for vegetation management and wildfire mitigation. Of this amount, \$30 million is included in base rates, and \$13.6 million is incremental. The Company also incurred \$2.56 million in Oregon allocated incremental capital investment costs. After accounting for taxes and depreciation, the incremental revenue requirement deferred in 2021 is \$14.34 million.

Vegetation Management and Wildfire Mitigation O&M:

PacifiCorp reports that the increase in vegetation management expense over what was projected in the general rate case UE 374 is due to general inflationary pressures and low labor resource availability. Cost increases for core vegetation management work of tree trimming and routine tree removal were due mainly to increased labor costs reflected by the more competitive market for vegetation management workers, as well as increased costs for labor premiums to attract additional travel crews to the area.

Wildfire mitigation spending also increased over the projected amount in base rates and is reflected in the increased scope of the projects to accomplish additional work in high-risk areas.

Wildfire Mitigation Capital Investments:

Incremental capital investments made by the Company include the installation of line reclosers, transmission relay replacements, installation of weather stations, line rebuilds to covered conductor, and purchase of wildfire equipment vehicles. These projects are consistent with the objectives outlined in PacifiCorp's 2021 Wildfire Protection Plan.

Performance Metrics

PUC Staff conducted a safety audit in June of 2022 measuring PacifiCorp's performance with respect to vegetation management. The result showed significant improvement in the number of vegetation contacts with power poles and electrical

conductors over previous years. The inspection identified 131 total contacts, five of which were in Fire High Consequence Zones in 2022. That is a decrease from 464 total contacts in 2021. The Company's 2022 performance corresponds with Violation Level I in the WMVM mechanism, which would subject the first \$6.645 million to an earnings test of 8.5 percent Return on Equity (ROE).

Earnings Test

Per Order No. 20-476, recovery of the first \$6.645 million of incremental capital and O&M expenditures are subject to performance metrics and the corresponding earnings test as noted in the above table. Costs above the \$6.645 million are subject to an earnings test set at the Company's ROE as authorized in UE 374. PacifiCorp's 2021 Results of Operations excluding weather normalization adjustments reflects a 5.18 percent ROE for 2021. This earnings return is below the most restrictive 7.5 percent earnings test for cost recovery under the WMVM mechanism.

Staff Analysis of Filing

The overall impact of the Oregon-allocated incremental WMVM costs incurred in 2021 is a rate increase of \$14.3 million. The proposed change will affect approximately 646,000 customers, and reflect an overall rate increase of approximately 1.1 percent. A residential customer using 900 kilowatt-hours per month will see a monthly bill increase of approximately \$1.33 per month as a result of this change.

Staff has reviewed the filing and associated work papers and issued several data requests to determine that the costs proposed for recovery were incremental, prudent, and consistent with Commission Order No. 20-473. Staff finds that the updated rates in Schedule 94 are correctly calculated. As this filing meets applicable legal requirements, Staff recommends the Commission approve PacifiCorp's filing.

Conclusion

For the reasons stated above, Staff recommends that the Commission approve PacifiCorp's Advice No. 22-006 for service rendered on and after November 5, 2022. The Company has reviewed this memo and states no objection to its content.

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PROPOSED COMMISSION MOTION:

Approve Advice No. 22-006, PacifiCorp's request to update its Schedule 94 to recover incremental costs authorized for recovery through the WMVM mechanism in accordance with Commission Order No. 20-473.

PAC ADV 1394 Advice No. 22-006 WMVM Recovery