

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 31, 2023**

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

DATE: October 16, 2023

TO: Public Utility Commission

FROM: Luz Mondragon and Bret Stevens

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

SUBJECT: PACIFIC POWER:
(Docket No. ADV 1501/Advice No. 23-011)
Requests approval to update Schedule 94 - Wildfire Mitigation and
Vegetation Management Cost Recovery Adjustment.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Pacific Power's (PacifiCorp, PAC, or Company) Advice No. 23-011, 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, 2023.

DISCUSSION:

Issue

Whether the Commission should approve Advice No. 23-011, PacifiCorp's request to update its Schedule 94 (WMVM) to recover incremental costs of \$26.9 million, authorized for recovery through the WMVM mechanism in accordance with Commission Order No. 20-473.

Applicable Law

ORS 757.205 requires public utilities file 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. 20-473,¹ 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 (WMVM) 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.

In its 2022 general rate case docketed as UE 399, in the first partial stipulation,² the Commission settled all issues regarding wildfire mitigation and vegetation management. The stipulation increased the wildfire mitigation expense to be included in base rates from \$30 million to \$69.7 million, which includes \$50 million in vegetation management expense and \$19.7 million in wildfire mitigation expense. It also eliminated the two-tiered approach, under which the first tier is subject to a more rigorous earnings review than the second tier. The modified WMVM will apply to recovery requests through 2024.³

¹ *In the Matter of PacifiCorp Request for a General Rate Revision*, Order No. 20-473, Docket No. UE 374 (Dec. 18, 2020).

² *See In the Matter of PacifiCorp Request for a General Rate Case*, Order No. 22-491, Docket No. UE 399 (Dec. 16, 2022).

³ *Id.*; The stipulation extended the WMVM by one year to include incremental costs incurred through 2024, unless PacificCorp files a general rate case with a new forecast for 2024.

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

Performance Metric	Earnings Test
Below Violation Level I – (150 violations or less)	No earnings test.
At or above Violation Level I, but below Violation Level II (151-225 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 (226-325 violations)	Earnings test of UE 374 authorized ROE minus 150 basis points – 8.0%
At or above Violation Level III (Over 326+ violations)	Earnings test of UE 374 authorized ROE minus 200 basis points – 7.5%

The Commission Order No. 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.

On May 5, 2023, PacifiCorp filed Advice No. 23-011 to update Schedule 94—Wildfire Mitigation and Vegetation Management (WMVM) Cost Recovery Adjustment (Schedule 94). While responding to an information request on the Company’s filing, PacifiCorp found that it did not properly reflect the interest accrual on the balances based on the monthly incremental costs recorded to the balancing account. On September 28, 2023, PAC filed an update to Advice No. 23-011 increasing the recovery amount from \$25.7 million to \$26.9 million. The expenses were incurred in 2022 and so the earnings test applicable is PacifiCorp’s results of operations for 2022.

WMVM O&M and Capital Investment Spending – 2022

In its filing, PacifiCorp reported spending \$54.9 million in Oregon-allocated O&M expense for vegetation management in 2022. Of this amount, \$30 million is included in base rates, and \$24.9 million is incremental. The Company did not include any capital investment costs in this filing. After accounting for taxes and depreciation, the incremental revenue requirement deferred in 2022 is \$26.9 million.

**Schedule 94 Wildfire Mitigation and Vegetation Management
 Revenue Requirement**

	2022 WMVM	
	12 ME Dec 2022 Test Period Oregon Allocated	
	Original Filed	Revised
Capital Costs	-	-
Incremental O&M	24,885,826	24,885,826
Annual Revenue Requirement	25,703,387	26,867,018

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 a transition from a 4-year cycle to a 3-year cycle, resulting in an increase in the volume of work. 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 Capital Investments

All wildfire mitigation capital expenditures in 2022 are included in the projects identified in the Company's 2022 Wildfire Mitigation Plan and are recovered through Schedule 190—Wildfire Mitigation Plan Automatic Adjustment Clause.

Performance Metrics

PUC Staff conducted a safety audit between the dates of July 25 and September 21, 2023, measuring PacifiCorp's performance with respect to vegetation management. Staff observed one hundred and fifty-three locations where evidence existed of contact between vegetation and primary conductors. The identified locations resulted in conservatively over one hundred and seventy-seven primary conductor vegetation contacts.

- Five are readily climbable trees noted as hazardous conditions in Citation A, three of the five readily climbable tree locations noted above involve two or more trees contacting primary conductors.

- Of one hundred and forty-eight locations identified in Citation B, twelve locations involve two or more trees contacting primary conductors.
- Fourteen locations in Citation C involve vines or trees that have engulfed poles creating climbing hazards.
- Three locations within Citations A and B were located within a High Fire Risk Zone (FHCA).
- In total, this is an increase of 2 contacts, up from 151 in 2022, 20 of which were climbable tree contacts and the balance trees contacting primary conductors.

The Company's 2023 performance corresponds with Violation Level I in the WMVM mechanism, which would subject an earnings test of 8.5 percent Return on Equity (ROE).

Earnings Test

PacifiCorp's 2022 Results of Operations excluding weather normalization adjustments reflects a 3.07 percent ROE for 2022. This earnings return is below the most restrictive 7.5 percent earnings test for cost recovery under the WMVM mechanism. This means that all prudently incurred costs are recoverable under the mechanism.

Staff Analysis of Filing

The overall impact of the Oregon-allocated incremental WMVM costs incurred in 2022 is a rate increase of \$26.9 million. The proposed change will affect approximately 652,000 customers and reflect an overall rate increase of approximately 0.7 percent from the previous filing. A residential customer using 900 kilowatt-hours per month will see a monthly bill increase of approximately \$1.15 per month from the previous filing 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 are 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 all applicable 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. 23-011 for service rendered on and after November 5, 2023.

The Company has reviewed this memo and states no objection to its content.

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PROPOSED COMMISSION MOTION:

Approve Advice No. 23-011, 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, for service rendered on and after November 5, 2023.

PAC ADV 1501 Advice No. 23-011 WMVM Recovery