

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 21, 2013

REGULAR X CONSENT EFFECTIVE DATE June 1, 2014

DATE: May 15, 2013

TO: Public Utility Commission

FROM: Jorge Ordonez *JDO*

THROUGH: *IE* Jason Eisdorfer, *MG* Maury Galbraith, and *AA* Aster Adams

SUBJECT: PACIFIC POWER & LIGHT: (Docket No. UE 246/Advice No. 13-011)
Implements a separate tariff rider for recovery of the Oregon-allocated costs of the Company's investment in the Mona-to-Oquirrh transmission project (M2O Transmission Project).

STAFF RECOMMENDATION:

Staff recommends that the Commission approve the request of Pacific Power and Light (PacifiCorp or the Company) to implement a separate tariff rider for recovery of the Oregon-allocated costs of PacifiCorp's investment in the M2O Transmission Project only if the M2O Transmission Project becomes operational by May 31, 2013, subject to the following conditions:

- 1) The Company will provide no later than May 31, 2013 an attestation from a corporate officer of PacifiCorp that the project has become operational by May 31, 2013 and that the project is complete and has been released for operation by May 31, 2013;
- 2) The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's capital costs in excess of the \$343,493,542¹ requested by the Company in its filing of May 13, 2013. The Company may be required in future rate proceedings to show that any excess capital costs are just and reasonable; and
- 3) In the event that the M2O Transmission Project becomes operational after May 31, 2013, Staff does not recommend approval of PacifiCorp's request to

¹ See Attachment A to PacifiCorp's filing with the Public Utility Commission of Oregon (OPUC) requesting to implement a separate tariff rider for recovery of the Oregon-allocated costs of the Company's investment in the M2O Transmission Project (May 10 Filing),

implement a separate tariff rider for recovery of the Oregon-allocated costs of PacifiCorp's investment in the M2O Transmission Project. In this case, the Company should proceed to implement what has been directed by the OPUC in Order No. 12-493 of Docket No. UE 246.^{2, 3}

DISCUSSION:

On May 10, 2013 (May 10 Filing), PacifiCorp filed with the Public Utility Commission of Oregon (OPUC) a request to implement a separate tariff rider for recovery of the Oregon-allocated costs of the Company's investment in the M2O Transmission Project under ORS 757.205 and OAR 860-022-0025 and 0030.⁴

In the May 10 Filing, PacifiCorp also filed tariff sheets that the Company requested to enter into effect on June 1, 2013. The Company further represented that these tariff sheets were filed in compliance with Order No. 12-493 of Docket No. UE 246.

Background

The M2O Transmission Project

"The project is one component of the Company's long-range transmission plan and consists of a single-circuit 500 kV transmission line originating from the Clover substation (to be constructed near Mona in Juab County, Utah), extending northward about 70 miles to the proposed future Limber substation (to be located in Tooele County, Utah), and continuing as a double-circuit 345 kV line for approximately 30 miles to the existing Oquirrh substation in South Jordan, Utah."⁵

Order No. 12-493 of Docket No. UE 246

The stipulating parties⁶ in Docket No UE 246 agreed, among other issues, "not to contest the prudence of Pacific Power's decision to build the [M2O Transmission

² The OPUC has ordered that, if the M2O Transmission Project becomes operational after May 31, 2013, but within 60 days of May 31, 2013, Staff and intervenors will have 20 days from the online date to establish sufficient cause to warrant the reopening of this docket to determine whether any cost reductions to PacifiCorp's test year expenses should be used to off-set, in part, costs associated with the new transmission project.

³ Although the Company asserts that the M2O Transmission Project will be in service before May 31, 2013, and the conditions under a different scenario (the project being in service after May 31, 2013) are not applicable, Staff's position is that the conditions under such unlikely scenario should nevertheless be taken into consideration. This will be addressed by Staff in this public meeting memo.

⁴ Page 1 of the letter provided by PacifiCorp in the May 10 Filing.

⁵ See Docket No UE 246, Exhibit PAC/700 Gerrard/4, Lines 18-23 at <http://edocs.puc.state.or.us/efdocs/UAA/ue246uaa144556.pdf>.

⁶ The stipulating parties were: PacifiCorp, Staff, the Citizens' Utility Board, Industrial Customers of Northwest Utilities, and Kroger.

Project], which is scheduled to be in service in May 2013.”⁷ This issue was approved by the OPUC in Order No. 12-943.⁸

Order No. 12-943 also granted Pacific Power’s request for a tariff rider to recover the Oregon-allocated portion of its investment with the following conditions in two scenarios as showed in Table 1 below:

Table 1

OPUC Conditions⁹	
Scenario 1: The M2O Transmission Project becomes operational by May 31, 2013	Scenario 2: The M2O Transmission Project becomes operational after May 31, 2013
PacifiCorp will [provide] ¹⁰ an attestation by a corporate officer that the project is complete and has been released for operation (Attestation).	If the transmission project becomes operational after May 31, 2013, but within 60 days of May 31, 2013, Staff and intervenors will have 20 days from the online date to establish sufficient cause to warrant the reopening of this docket to determine whether any cost reductions to PacifiCorp’s test year expenses should be used to off-set, in part, costs associated with the new transmission project.
The OPUC will review for prudence the final costs of the transmission project before they are included in rates (Prudency of Final Costs).	
PacifiCorp will facilitate the parties’ audit and review of the utility’s final costs of the project, and any party may challenge costs as imprudent or exceeding the amount initially requested by PacifiCorp (Audit of Final Costs).	If the transmission project becomes operational more than 60 days after May 31, 2013, PacifiCorp must make a new filing with the Commission under ORS 757.210 to add the project to rate base when it meets the used and useful standard.

⁷ See Docket No. UE 246, Order No 12-493, page 4 at <http://apps.puc.state.or.us/orders/2012ords/12-493.pdf>.

⁸ See the “Resolution” section of page 5 at <http://apps.puc.state.or.us/orders/2012ords/12-493.pdf>.

⁹ See Docket No. UE 246, Order No 12-493, page 8 at <http://apps.puc.state.or.us/orders/2012ords/12-493.pdf>.

¹⁰ Although Order No. 12-493 of Docket No. UE 246 uses the words “will need,” Staff uses the words “will provide” based on PacifiCorp representation that “[o]n the expected in-service date of May 17, 2013, the Company will supplement [the May 10 Filing] with an attestation from a corporate officer that the project is complete”. See

Staff Review

The May 10 Filing is based on the scenario that the M2O Transmission Project becomes operational by May 31, 2013, and focuses on the conditions imposed by the OPUC in such scenario.¹¹ The Company did not address any of the conditions in the scenario that the M2O Transmission Project does not become operational by May 31, 2013, instead asserting that such conditions are not applicable because the M2O Transmission Project will be in service before that date.¹²

The Company asserts that the M2O Transmission Project will be in service on May 17, 2013, and that on the in-service date the Company will supplement its May 10 Filing with an attestation from a corporate officer that the project is complete. However, as of today, May 15, 2013, the project is not technically in service. Moreover, my professional experience in mechanical and electrical engineering has shown that power system components such as generation equipment, transmission lines, reactive power compensation equipments, etc. could produce unexpected outcomes when energized. Therefore, Staff's position is that the conditions in such an unlikely scenario should still be taken into consideration as proposed by Staff in Condition 3 of the Staff Recommendation section of this public meeting memo.

Table 1 above presents three OPUC conditions in the scenario that the Transmission Project becomes operational by May 31, 2013. The first OPUC condition requires the Company to provide an Attestation that the project is complete. The Company has not yet done so as of May 15, 2013, but has represented that it will provide the Attestation on May 17, 2013, when the project is put in service.

Regarding the second and third OPUC conditions (i.e., Prudence of Final Costs and Audit of Final Costs), the Company facilitated parties' audit and review of the utility's final costs of the project by providing periodical updates of the actual costs of the project, responding Staff's data requests, and by organizing a workshop where the Company's project management personnel explained the status of the project and answered questions about the project.¹³

From the information provided by the Company, Staff concludes that the capital costs of the M2O Transmission Project (i.e., \$343,493,542) are prudent based on the Company-provided information and Staff's analysis described as follows:

¹¹ See the conditions for Scenario 1 of Table 1 above (i.e., The M2O Transmission Project becomes operational by May 31, 2013).

¹² See footnote 3 of the Company's May 10 Filing.

¹³ This workshop took place on April 24, 2013. All parties of Docket No. UE 246 were invited to this workshop, but only OPUC Staff and representatives of CUB attended the workshop.

- The anticipated costs of the M2O Transmission Project¹⁴ are lower than the capital costs estimated when the Company decided to move forward with the project;¹⁵
- Staff analysis consisted of selecting, for sampling purposes, the highest cost category of capital cost (i.e., Engineering Procurement and Construction [EPC] capital cost category) from the different categories of capital cost provided by the Company;¹⁶
- Amendments to the EPC contract did not result in increases or decreases to the lump sum of the contract;¹⁷
- The Company demonstrated that it had established monitoring and reporting controls to which the contractor adhered in completing the M2O Transmission Project;¹⁸ and
- Staff reviewed the change in work (CIW) orders associated with the EPC contract and concluded that such CIW orders were handled appropriately by the Company and were reasonable.^{19, 20}

Consequently, Staff recommends that the Commission approve the request of Pacific Power and Light (PacifiCorp or the Company) to implement a separate tariff rider for recovery of the Oregon-allocated costs of PacifiCorp's investment in the M2O Transmission Project only if the M2O Transmission Project becomes operational by May 31, 2013, subject to the following conditions:

- 1) The Company will provide no later than May 31, 2013 an attestation from a corporate officer of PacifiCorp that the project has become operational by May 31, 2013 and that the project is complete and has been released for operation by May 31, 2013;
- 2) The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's capital costs in excess of the \$343,493,542²¹ requested by the Company in its filing of May 13, 2013. The Company may be

¹⁴ See Confidential Attachment OPUC 345a, line "Project Total – Gross," column "D".

¹⁵ See Confidential Attachment OPUC 345a, line "Project Total – Gross," column "C".

¹⁶ The different capital cost categories provided by the Company were: Right of Way, EPC, Property, Permitting, Engineering, PMO and Non-EPC.

¹⁷ See PacifiCorp's response to Staff Data Request 346, part "b".

¹⁸ See PacifiCorp's response to Staff Data Request 347.

¹⁹ See PacifiCorp's response to Staff Data Request 348.

²⁰ See PacifiCorp's first supplemental response to Staff Data Request 348.

²¹ See Attachment A to PacifiCorp's filing with the Public Utility Commission of Oregon (OPUC) requesting to implement a separate tariff rider for recovery of the Oregon-allocated costs of the Company's investment in the M2O Transmission Project (May 10 Filing).

required in future rate proceedings to show that any excess capital costs are just and reasonable; and

- 3) In the event that the M2O Transmission Project becomes operational after May 31, 2013, Staff does not recommend approval of PacifiCorp's request to implement a separate tariff rider for recovery of the Oregon-allocated costs of PacifiCorp's investment in the M2O Transmission Project. In this case, the Company should proceed to implement what has been directed by the OPUC in Order No. 12-493 of Docket No. UE 246.^{22, 23}

PROPOSED COMMISSION MOTION:

PacifiCorp's request to implement a separate tariff rider for recovery of the Oregon-allocated costs of the Company's investment in the M2O Transmission Project be approved with Staff's conditions.

PacifiCorp UE 246 M2O Transmission Project Advice No 13-011

²² The OPUC has ordered that, if the M2O Transmission Project becomes operational after May 31, 2013, but within 60 days of May 31, 2013, Staff and intervenors will have 20 days from the online date to establish sufficient cause to warrant the reopening of this docket to determine whether any cost reductions to PacifiCorp's test year expenses should be used to off-set, in part, costs associated with the new transmission project.

²³ Although the Company asserts that the M2O Transmission Project will be in service before May 31, 2013, and the conditions under a different scenario (the project being in service after May 31, 2013) are not applicable, Staff's position is that the conditions under such unlikely scenario should nevertheless be taken into consideration.