

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 19, 2018

REGULAR  CONSENT  EFFECTIVE DATE \_\_\_\_\_ N/A

DATE: June 7, 2018

TO: Public Utility Commission

FROM: Scott Gibbens

*SG*  
*J Efor JC*

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PACIFIC POWER: (Docket No. UI 397) Requests Approval of an Affiliated Interest Transaction with Bridger Coal Company and Notice of Property Disposition for the Sale of an Ash Analyzer.

**STAFF RECOMMENDATION:**

The Commission should approve PacifiCorp's (PacifiCorp or Company) Application Requesting Approval of an Affiliate Interest Transaction with Bridger Coal Company (BCC), subject to the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with BCC.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. PacifiCorp shall notify the Commission in advance of any substantive changes to the contract, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

## **DISCUSSION:**

### Issue

Whether the Commission should approve PacifiCorp's Application Requesting Approval of an Affiliate Interest Transaction with BCC (Application), related to the sale of an ash analyzer.

### Applicable Rule

"Affiliated interest," as defined in ORS 757.015, includes every corporation five percent or more of whose voting securities are owned by any corporation or person owning at least five percent of the voting securities of a public utility or by any person or corporation in any chain of successive ownership of at least five percent of voting securities of the utility. See ORS 757.015(3). ORS 757.495 requires a public utility to seek approval of contracts with affiliated interests within 90 days after execution of the contract. The required process for submitting an agreement for review by the Commission is set forth in ORS 757.015(2) and OAR 860-027-0040.

ORS 757.495(3) provides that the Commission may approve an affiliated interest agreement if the agreement is fair and reasonable and not contrary to the public interest. Under OAR 860-027-0048(4)(d), for cost allocation purposes, "[w]hen services or supplies are sold by an energy utility to an affiliate, sales shall be recorded in the energy utility's revenue accounts at the approved rate if an applicable rate is on file with the Commission or with FERC. If services or supplies are not sold pursuant to an approved rate, sales shall be recorded in the energy utility's accounts at the energy utility's cost or the market rate, whichever is higher." The Commission need not determine the reasonableness of all financial aspects of the contract for ratemaking purposes, but, rather, may reserve that issue for subsequent proceedings. See Commission Order No. 11-071.

Finally, ORS 757.480(2) requires a public utility disposing of property necessary or useful in the provision of utility service to notify the Commission of a property sale of a value in excess of \$25,000 but less than \$100,000.

### Analysis

PacifiCorp filed its Application with the Commission on March 20, 2018, pursuant to ORS 757.495 and in accordance with OAR 860-027-0040, as well as ORS 757.480(2). Bridger Coal Company ("BCC"), a joint venture between Idaho Energy Resources Co. ("IERCo") and Pacific Minerals, Inc. ("Pacific Minerals"), mines and

supplies coal to the Jim Bridger generating plant ("Jim Bridger plant"), located in Sweetwater County, Wyoming. Idaho Power is the parent of IERCo and PacifiCorp is the parent of Pacific Minerals. The Jim Bridger plant is owned by Idaho Power (one-third) and PacifiCorp (two-thirds). BCC is located in southwestern Wyoming and consists of two principal operating units: a surface operation and an underground operation. The coal from both operations is delivered to the Jim Bridger plant.

The Jim Bridger plant measures the ash content of the coal using a ThermoFisher Coal Quality Monitor analyzer ("CQM analyzer"). The CQM analyzer is located at the surface mine and provides real-time continuous data on total ash in the surface operation coal. In addition, BCC operates a Scantech Coal Scan over the belt coal analyzer ("SCS analyzer") at the underground mine.

Currently, the SCS analyzer is not reliable and cannot be recalibrated accurately due to a tonnage restriction on the North Wing conveyor. The SCS analyzer is failing to provide the accuracy for the Jim Bridger plant blending requirements, leaving shipments from the mine to the Jim Bridger plant vulnerable to being reduced and/or potentially de-rating generation at the plant. Due to the SCS analyzer's reliability issues, BCC is requesting to purchase, relocate and install the EC analyzer from the now closed Deer Creek mine, located in Emery County, Utah.

The Deer Creek mine utilized an EC analyzer in its operations prior to the closure of the mine. Since operations have ceased at Deer Creek, the EC analyzer has been sitting idle. The last EC analyzer unit was installed at Deer Creek in August 2013 at a cost of \$296,700 and was used until January 2015. After that it was not recalibrated again until July 31, 2017. BCC had spent approximately \$126,000 year-to-date on handling and shipping high ash from the underground mine to the Jim Bridger plant due to the lack of reliability in the current analyzer.

BCC solicited fair market value appraisals for the EC analyzer and selected two companies from a recommended list of appraisers. The two companies returned very similar fair market values for the EC analyzer based on its time in service. BCC views the average of the two appraisals, \$29,850, to be the fair market value. Additionally, the relocation and installation to the BCC mine is estimated to cost \$66,793, bringing total project costs to \$96,643, of which PacifiCorp's share is \$64,428.

In review of the Company's application, Staff issued one data request.

Staff investigated the following issues:

1. Terms and Conditions of the Agreement

2. Transfer Pricing
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

*Terms and Conditions of the Agreement*

Staff's review of the transaction did not identify any unusual or restrictive terms or conditions.

*Transfer Pricing*

BCC solicited two appraisals to determine fair market value for the EC analyzer. The two companies returned very similar fair market values for the EC analyzer based on its time in service. BCC views the average of the two appraisals, \$29,850, to be the fair market value. Under the proposal, BCC will purchase the EC analyzer from PacifiCorp at the fair market value, \$29,850. The relocation and installation to the BCC mine will cost an estimated \$66,793, bringing BCC's total cost of the EC analyzer project to \$96,643. PacifiCorp's share of the cost is \$64,428. ( $\$96,643 \times 66.66$  percent). In addition, the longevity of the unit is estimated at 10-15 years, assuming normal maintenance and calibration. Staff finds this pricing to reflect fair market value.

*Public Interest Compliance*

Absent the EC analyzer, BCC leaves the coal shipments vulnerable to being reduced and/or de-rating generation at the plant. The installation of the EC analyzer will allow for early detection and flexibility in adjusting to coal quality variances.

The purchase of the EC analyzer is expected to reduce the cost of production at the Jim Bridger plant and will provide a more reliable and accurate coal supply resulting in lower overall costs to PacifiCorp and its customers. The Company's estimates it will save money every year from the purchase. Inefficient handling of the existing ash analyzer has resulted in spending approximately \$126,000 through July 31, 2017.

Because customers are not harmed by this transaction, Staff concludes that the transaction is in the public interest.

*Records Availability, Audit Provisions, and Reporting Requirements*

Staff notes that the Commission retains the ability to review all property purchases and sales entered by the Company through general rate case filings. Staff's recommended conditions provide for documentation associated with this transaction.

Conclusion

Based on the review of the Application, Staff concludes:

1. The Application concerns an affiliated interest agreement that Staff concludes is fair and reasonable and not contrary to the public interest with inclusion of the proposed ordering conditions; and
2. Necessary records are available.

**PROPOSED COMMISSION MOTION:**

Approve PacifiCorp's Application for Approval of an Affiliated Interest Agreement with BCC, subject to the conditions recommended by Staff.

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