

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 10, 2014

REGULAR _____ CONSENT X EFFECTIVE DATE May 16, 2014

DATE: May 20, 2014

TO: Public Utility Commission

FROM: Judy Johnson *JJ* *MA & MG* *HT*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman

SUBJECT: PACIFIC POWER: (Docket No. UM 1693) Requests Authorization to Defer Costs Associated With Net Power Cost Variances.

STAFF RECOMMENDATION:

I recommend that the Commission approve Pacific Power's (PacifiCorp or Company) request for authorization to defer costs associated with Net Power Cost Variances for a twelve-month period beginning May 16, 2014.

DISCUSSION:

Pacific Power makes this filing under ORS 757.210, ORS 757.259 and OAR 860-027-0300.

Reason for Deferral

PacifiCorp seeks authorization from the Commission to accrue, for future amortization, the difference between actual annual net power costs and forecasted annual net power costs, in accordance with Order No. 12-493. The annual variance will be determined under the terms of Order No. 12-493, which includes a deadband, a sharing band, and an earnings test.

Description of Expense

In Order No. 12-493, the Commission ordered the adoption of a PCAM for PacifiCorp. The PCAM provides for recognition in rates of the difference, for a given year, between the actual annual net power costs incurred by PacifiCorp and forecast annual net power costs, subject to certain limitations. The Company's PCAM became effective in 2013 with the filing of Schedule 206. PacifiCorp's net power cost variances in 2013, however, were insufficient to trigger rate changes under the PCAM.

Given unfavorable hydro conditions in the Northwest, the Company anticipates that its net power cost variances in 2014 may exceed the dead bands and other PCAM limitations in Order No. 12-493. For this reason, the Company is seeking authorization to defer net power cost variances in excess of the dead bands and other PCAM limitations for possible later inclusion in rates. This deferral is intended to capture the net annual power cost difference exceeding those limitations that will then be amortized in rates through the PCAM.

Proposed Accounting

Following current practice, the proposed deferrals will be debited in subaccounts of FERC Account 182.3 and credited to FERC Account 555 if there is an amount to collect from customers. If there is a refund to customers, PacifiCorp would record the accrued amount to FERC Account 254 and debit FERC Account 555. Absent authorization of deferred accounting, these costs would be expensed per standard accounting practices until they could be incorporated into rates.

Estimated Deferrals in Authorization Period

PacifiCorp is unable to provide an estimate of the deferred amount because it is a function of several unknown and unpredictable factors. The Company requests that, under Order No. 05-1070, it be allowed to accrue interest on the unamortized balance at a rate equal to its authorized weighted average cost of capital most recently approved by the Commission.

Staff recommends that the Company be allowed to accrue interest according to Order No. 08-263 as modified by Order No. 10-279. These Orders clearly state what interest rate a utility must use at different stages of accruing and amortizing the deferral.

Information Related to Future Amortization

- Earnings review – An earnings review should be applied to amortization of prudently incurred net power cost variances.
- Prudence Review – A prudence review is required to establish that costs were prudently incurred, and should include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Staff believes that customers would bear the responsibility for all prudently incurred costs.
- Rate Spread/Design – Amortization should be amortized in rates through the PCAM.

- 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. Amortization of the expense associated with this deferral is subject to the three percent test.

Staff Analysis

PacifiCorp has met the requirements of ORS 757.259 and OAR 860-027-0300 in its filing. Staff requests that the Commission instruct the Company to follow the dictates of Order Nos. 08-263 and 10-279 as regards interest on deferred accounts. Staff recommends the Commission approve PacifiCorp's application as filed on May 16, 2014. Approval is for accounting purposes only. Staff will conduct a prudence review of all costs prior to a Commission ratemaking decision.

PROPOSED COMMISSION MOTION:

The Commission approve Pacific Power's request for authorization to defer costs associated with Net Power Cost Variances for a twelve-month period beginning May 16, 2014. We further instruct the Company to use Commission Order Nos. 08-263 and 10-279 to calculate the interest to be used for this deferral.