

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 10, 2023**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A**

DATE: December 21, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: PACIFIC POWER:
(Docket No. UM 2013(1))
Reauthorization of deferred accounting for costs related to Wildfire Risk Mitigation Measures.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Pacific Power's (PacifiCorp, PAC, or Company) request to defer incremental costs associated with implementing the Wildfire Risk Mitigation Measures for the 12-month periods beginning May 14, 2019, ending May 13, 2020, and beginning May 14, 2020, ending May 13, 2021.

DISCUSSION:

Issue

Whether the Commission should approve Pacific Power's requests for authorization and reauthorization to defer costs associated with implementing Wildfire Risk Mitigation Measures.

Applicable Law

In accordance with ORS 757.259, utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs. OAR 860-027-0300(4) requires the utility to provide certain information in an application to defer, such as reason for the deferral, estimated amount of the deferral, etc.

Analysis

Reason for Deferral

PacifiCorp requests both authorization and reauthorization to defer the incremental costs associated with fire risk mitigation. ORS 757.259(2)(e) allows the deferral of identifiable utility expenses in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers.

Description of Expenses

For the 12-month period May 14, 2019 through May 13, 2020, PacifiCorp is asking for authority to defer approximately \$4.8 million of expenses associated with the incremental costs of fire risk mitigation work that is not otherwise recovered in PacifiCorp's approved revenue requirement.

For the 12-month period starting May 14, 2020 through May 13, 2021, the Company is asking for authority to defer approximately \$27.4 million of expenses starting in 2020. These costs will include costs for inspection and correction of found fire-threat conditions, advanced system hardening and resiliency, expanded automation and protection, improved wildfire detection, and enhanced event response capacity, vegetation management activities.

Staff has not reviewed the deferred costs to determine whether costs for overhead and loadings are included. Staff believes there could be the potential for double recovery with the use of some loadings and will review to the deferred amounts to ensure that there is no double recovery of overhead costs when it is time for amortization.

Proposed Accounting

PacifiCorp will record deferred amounts by debiting Federal Energy Regulatory Commission (FERC) Account 182.3 – Other Regulatory Assets and crediting the incremental operations and maintenance expense to various FERC Accounts, including primarily 593.0 Maintenance Overhead Lines (distribution) and 571.0 Maintenance Overhead Lines (transmission), and crediting revenue to FERC Accounts 440, 442, and 444 for the return on capital investments.

Information Related to Future Amortization

- Earnings review – The Commission will review earnings in accordance with ORS 757.259(5) at the time of amortization. Staff intends to recommend the Commission impose an earnings test that would result in a sharing of costs between shareholders and customers in this case.

- Prudence Review – A prudence review will be conducted prior to amortization, and should include a verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Staff supports having a sharing mechanism to incent the Company to control costs. However, in the alternative, Staff understands that the Commission, in recent Commission decisions, has used an earnings test as a means for potential sharing of costs.
- Rate Spread/Design – The deferred amortization amount will be spread on the basis of distribution and transmission revenues in proportion to the components for which costs are incurred.
- 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. Because Pacific Power is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit.

Conclusion

Staff reviewed the Company's application. The application meets the requirements of ORS 757.259 and OAR 860-027-0300 and is an appropriate use of the deferral statute. Accordingly, Staff recommends the application be approved.

PROPOSED COMMISSION MOTION:

Approve Pacific Power's application and re-authorization to defer costs associated with wildfire Risk Mitigation Measures for the 12-month periods beginning May 14, 2019, ending May 13, 2020, and beginning May 14, 2020, ending May 13, 2021.