

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 21, 2023**

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

DATE: March 6, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: PACIFIC POWER:
(Docket No. UM 2159)
Authorization of deferred accounting for costs related to Wildfire Risk Mitigation Measures and Vegetation Management.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Pacific Power's (PacifiCorp, PAC, or Company) request to defer costs associated with Wildfire Risk Mitigation and Vegetation Measures for the 12-month period beginning March 11, 2021, and ending March 10, 2022.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's requests for authorization or deferred accounting for costs related to Wildfire Risk Mitigation Measures and Vegetation Management.

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.

In Order 20-473 the Commission authorized a Wildfire Mitigation and Vegetation Management Cost Recovery Mechanism (WMVM mechanism) for a period of three years (2021-2023). In doing so the Commission determined that annual deferral of costs within the mechanism is authorized under ORS 757.259(2)(e).

Analysis

Background

On May 14, 2019, in Docket No. UM 2013, PacifiCorp submitted an Application for deferred accounting related to Wildfire Risk Mitigation Measures. On May 14, 2020, PacifiCorp submitted an Application for Reauthorization of Deferred Accounting in Docket No. UM 2013(1). The costs described in those applications included inspection and correction of found fire-threat conditions, advanced system hardening and resiliency, expanded automation and protection, improved wildfire detection, enhanced event response capacity, and vegetation management activities, along with other costs to mitigate the risk of wildfires. In UE 374, Order No. 20-473, the Commission authorized the Wildfire Mitigation and Vegetation Management (WMVM) mechanism for a period of three years. The Order authorized \$30 million in wildfire mitigation and vegetation management operations and maintenance (O&M) expense in base rates. The WMVM mechanism provides an opportunity to recover additional wildfire mitigation and vegetation management O&M spent beyond what is included in base rates subject to performance metrics and an earnings test.

The new WMVM mechanism authorized by the Commission includes vegetation management O&M costs not limited to the vegetation management costs incurred as part of PacifiCorp's Wildfire Mitigation Planning (WMP) effort. PacifiCorp is requesting authorization to defer the incremental wildfire mitigation costs and vegetation management O&M costs incurred as part of the Company's ongoing vegetation management program.

This UM 2159 filing, dated March 11, 2021, is consistent with and contemplated by the mechanism adopted by the Commission in UE 374. PacifiCorp notes that it expects to file for recovery of costs under the deferral on May 5, 2022. This deferral covers the twelve-month time period March 11, 2021 through March 10, 2022.

Also, after this filing, the Company filed a general rate case UE 399, where the Commission adopted a revised vegetation mechanism; and, the Company has filed for a wildfire automatic adjustment clause docketed as UE 407.

Reason for Deferral

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

In Order No. 20-473, the Commission authorized \$30 million in base rates related to wildfire mitigation costs and vegetation management O&M. The costs are expected to include inspection and correction of found fire-threat conditions, advanced system hardening and resiliency, expanded automation and protection, improved wildfire detection, enhanced event response capacity, and vegetation management activities, along with other costs to mitigate the risk of wildfires and vegetation management activities conducted outside of the wildfire mitigation program. The costs incurred in 2021 are expected to exceed the \$30 million authorized in base rates.

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).

Information Related to Future Amortization

- Earnings review – The Commission will review earnings in accordance with ORS 757.259(5) at the time of amortization. The Commission adopted an earnings test component combined with a performance-based mechanism on vegetation management violations in its order in UE 374, Order No. 20-473.
- 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 – A costs sharing mechanism was not adopted in Order No. 20-473, but the Company may bear some costs based on its vegetation management performance.
- 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.

The Company has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's request for authorization to defer costs associated with Wildfire Risk Mitigation Measures for the 12-month period beginning March 11, 2021, and ending March 10, 2022.