

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

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

DATE: March 8, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: PACIFIC POWER:
(Docket No. 2159(1))
Reauthorization 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 June 23, 2022, and ending June 22, 2023.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's requests for reauthorization to defer costs 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 22-491 the Commission altered PacifiCorp's Wildfire Mitigation and Vegetation Management Mechanism (WMVM) extending the timeline for incremental cost recovery through 2024.

Analysis

Background

PacifiCorp (PacifiCorp or Company) applied to the Public Utility Commission of Oregon (Commission) for an order reauthorizing deferral of the incremental costs of implementing the wildfire risk mitigation measures associated with mitigating wildfire risk in Oregon (Deferred Amount) and vegetation management.

PacifiCorp will seek amortization of the Deferred Amount in a future commission proceeding through the Wildfire Mitigation and Vegetation Management Cost Recovery Mechanism (WMVM). Since the time of the initial deferral application in 2021, Senate Bill 762 was signed into law and requires utilities to submit an annual wildfire protection plan. PacifiCorp submitted its first Wildfire Mitigation Plan (WMP) on December 30, 2021.

The wildfire prevention costs associated with PacifiCorp's 2022 WMP are deferred under a separate deferral application in Docket No. UM 2221. These amounts will not include costs deferred in UM 2221 for the 2022 WMP.

This UM 2159(1) filing, dated June 23, 2022, is consistent with and contemplated by the mechanism adopted by the Commission in UE 374, as well as UE 399, the general rate case PacifiCorp filed March 1, 2022, and the Commission's Order No. 22-491, dated December 16, 2022. This deferral covers the twelve-month period June 23, 2022 through June 22, 2023.¹

In UE 399 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.

¹ Staff notes that the UM 2159 twelve-month deferral period ends March 10, 2022, which is before UM 2159(1) twelve-month period begins.

Description of Expenses

On May 5, 2022, PacifiCorp filed for cost recovery of the 2021 costs in excess of the \$30 million in base rates through the WMVM. For 2022, the non-wildfire related vegetation management operations and maintenance (O&M) costs in this deferral are expected to exceed \$52 million (total company) or \$48 million (Oregon-allocated), which is more than the \$30 million currently authorized in base rates. As previously discussed, the wildfire prevention costs associated with PacifiCorp's 2022 WMP are deferred under a separate deferral application in Docket No. UM 2221.

Proposed Accounting

PacifiCorp will record deferred amounts by debiting Federal Energy Regulatory Commission (FERC) Account 182.3 – Other Regulatory Assets and crediting the incremental O&M expense to various FERC Accounts, including primarily 593.0 Maintenance Overhead Lines (distribution) and 571.0 Maintenance Overhead Lines (transmission).

In addition, on May 31, 2022, a regulatory asset in FERC Account 182.3 for approximately \$7.96 million has been recorded for 2022. The amounts recorded include incremental O&M costs and investment costs.

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, and in UE 399 Order No. 22-491.
- 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 – Sharing – A costs sharing mechanism was not adopted in Order Nos. 20-473 and 22-491, but the Company can 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.

PacifiCorp has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve Pacific Power's application and re-authorization to defer costs associated with Wildfire Risk Mitigation Measures for the 12-month period beginning June 23, 2022, and ending June 22, 2023.