

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 17, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: June 20, 2018

TO: Public Utility Commission

FROM: Kathy Zarate *KZ* *JE*

THROUGH: *EL* Jason Eisdorfer and John Crider

SUBJECT: PACIFIC POWER: (Docket No. UP 372) Requests Approval of a Lease Agreement with Dredge Management, LLC.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (or Company) Application for Approval of a Lease Agreement (Agreement) with Dredge Management, LLC. (Dredge), subject to the following conditions:

1. PacifiCorp shall notify the Commission in advance of any substantive change to this Agreement, including any material changes in price. Any changes to the Agreement terms that alter the intent and extent of activities under the Agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
2. The Commission reserves the right to review, for reasonableness, financial aspects of this arrangement in any rate proceeding.
3. The final journal entries recording the transaction shall be submitted to the Commission within 60 days after the transaction closes.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's Application for a Lease Agreement with Dredge Management, LLC.

Applicable Rule or Law

ORS 757.480(1) requires public utilities doing business in the Oregon to seek Commission approval prior to the sale, lease, assignment or disposal of property valued in excess of \$100,000 that is necessary or useful in the performance of its duties to the public.

OAR 860-027-0025 sets forth the information required to support a request for the approval of the lease or property. OAR 860-027-0025(1)(l) requires that the applicant show that the proposed lease will be consistent with the public interest. The Commission has interpreted the phrase "consistent with the public interest" as used in this rule to require a showing of "no harm to the public." See, e.g., In the Matter of the Application of PacifiCorp, Order No. 00-112 at 6 (2000); In the Matter of the Application of Portland General Electric, Order No. 99-730 at 7 (1999).

Finally, the Commission's authority, broadly speaking, is to obtain adequate service for customers at fair and reasonable rates while at the same time balancing the interests of the utility's investors. See ORS 756.040.

Analysis

PacifiCorp filed its Application on May 3, 2018, requesting approval from the Commission for a lease between PacifiCorp and Dredge Management, LLC., a non-affiliate, non-profit corporation in Utah.

PacifiCorp owns property in Salt Lake City, Utah, on which the Camp Williams 345 kV transmission corridor runs. Dredge owns and operates a trucking business, which is located on property adjacent to a portion of PacifiCorp's Camp Williams 345 kV transmission corridor property. PacifiCorp proposes leasing two parcels of 12.44 acres and 1.13 acres (the Leased Property) that is adjacent to Dredge's property for the purpose of allowing additional space for Dredge employees and customers to park vehicles.

This transaction involves lease of certain PacifiCorp real property that supports the Camp Williams 345 kV transmission corridor in Utah. Dredge intends to use the lease property for parking employee and customer vehicles from its adjacent property.

Dredge's use of the Leased Property will not interfere with PacifiCorp's ability to operate and maintain its transmission assets located on the Camp Williams 345 kV transmission corridor property. PacifiCorp will continue the provision of reliable electric service to its customers.

In review of the Company's application, Staff issued four data requests and the lease agreement (Agreement).

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 Agreement did not identify any unusual or restrictive terms or conditions. The lease is effective April 1, 2018, and extends the next five years, ending on March 31, 2023. Though the lease has an effective date of April 1, 2018, the Agreement will not be executed until the Company receives approval for it from the Commission.

Transfer Pricing

The transaction has an estimated value of approximately \$3,550 per month or \$42,600 per year. The first year of the lease is discounted to \$1,100 per month or \$13,200 per year as consideration for all of the improvements that Dredge is making at its own expense on PacifiCorp property. The value of the lease over its term is \$191,423.

To determine the fair market value of the property underlying the lease, PacifiCorp reviewed comparable properties.¹ Based on these comparable, PacifiCorp estimated the fair market value for the land subject to the lease to be \$608,341.54.²

Public Interest Compliance

Leasing with Dredge Management, LLC will not harm customers, and will not impede the Company's ability to provide safe and reliable service in the area. Because customers are not harmed by this transaction, Staff concludes that the Agreement is in the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

The Commission retains the ability to review all property sales and lease agreements entered by the Company through general rate case filings. Staff's recommendation affords the Commission the ability to examine PacifiCorp's books and records concerning the Lease as necessary.

¹ PacifiCorp's Response to OPUC Information Request No. 4, Attachment.

² PacifiCorp's Response to OPUC Information Request No. 4.

Treatment of Lease Revenues

In the treatment of lease revenues, Staff had some brief discussions regarding how the lease revenues should be treated. Staff had proposed that the lease revenues be placed in the property sales balancing account as is currently the practice with property sales.

The Company stated that such treatment would be a change in practice. In prior filings, the lease revenues have been recorded in "other revenues" accounts which do not have a rate impact outside of a general rate case. The Company is correct in its feedback. PacifiCorp has reviewed this memo and has not communicated any objections or concerns.

Conclusion

Based on the review of PacifiCorp's application, Staff concludes that the Commission should approve the Agreement, subject to the following conditions:

1. PacifiCorp shall notify the Commission in advance of any substantive change to this Agreement, including any material changes in price. Any changes to the Agreement terms that alter the intent and extent of activities under the Agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
2. The Commission reserves the right to review, for reasonableness, financial aspects of this arrangement in any rate proceeding.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's Application for Approval of a Lease Agreement with Dredge Management, LLC subject to Staff's recommended conditions.