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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 995

In the Matter of the Application of PACIFICORP)
for an Accounting Order Regarding Excess Net) ORDER
Power Costs.)

DISPOSITION: APPLICATION APPROVED

On November 1, 2000, PacifiCorp filed with the Oregon Public Utility Commission (Commission) an Application for an Accounting Order Regarding Excess Net Power Costs, requesting authorization to defer excess net power costs. On January 18, 2001, PacifiCorp requested partial authorization of its deferred accounting application. A description of the filings and their procedural history is contained in the Staff Report attached as Appendix A and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the partial deferral of net power costs satisfies applicable statutes and administrative rules. At its Public Meeting on January 23, 2001, the Commission adopted Staff's recommendation to authorize deferral of net power costs up to \$22.8 million, however, the Commission deferred ruling on the related docket UE 121 pending further investigation.

ORDER

IT IS ORDERED THAT PacifiCorp's application for an accounting order for a partial deferral of net power costs up to \$22.8 million, as described in Appendix A, is granted.

Made, entered and effective _____.

BY THE COMMISSION:

Vikie Bailey-Goggins
Commission Secretary

ITEM NO. _____

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 23, 2001**

REGULAR AGENDA X CONSENT AGENDA EFFECTIVE DATE February 1, 2001

DATE: February 14, 2001
TO: Bill Warren through Lee Sparling and Ed Busch
FROM: Judy Johnson
SUBJECT: PacifiCorp, Dockets UM 995 and UE 121, Advice No. 01-002
Partial Authorization of Deferred Accounting for Excess Net Power Costs
Tariff Adjustment Filing for the Amortization of Deferred Net Power Costs

SUMMARY RECOMMENDATION:

I recommend the Commission approve PacifiCorp's (PP&L or company) request for a partial deferral of excess net power costs in Docket UM 995 up to \$22.8 million.

I further recommend the Commission approve PacifiCorp's Application to Waive Statutory Notice and allow the proposed tariff sheets filed in Advice No. 01-002 to become effective with service on and after February 1, 2001. This filing increases the company's annual revenues by \$22.8 million, or 3.0 percent (Attachment A).

DISCUSSION:

UM 995

On November 1, 2000, PacifiCorp filed an Application for an Accounting Order Regarding Excess Net Power Costs (Application) requesting authorization to defer excess net power costs. PacifiCorp defined excess net power costs as the difference between the net power costs implicit in the Stipulation approved by the Commission in Docket UE 111 and the company's actual net power costs during the deferral period.

Staff, the Industrial Customers of Northwest Utilities (ICNU), and the Citizens' Utility Board (CUB) filed comments in response to the Application. ICNU and CUB opposed the company's Application. The Commission found, in Order No. 01-085, that the Application could continue.

Staff, PacifiCorp and other parties have engaged in settlement discussions since PacifiCorp filed the Application. The discussions have centered on the mechanism for booking an appropriate level of excess net power costs. No agreement has yet been reached on this issue. However, in the course of those discussions it became apparent that under any of the suggested mechanisms the company would defer costs of at least \$22.8 million. This amount is equal to 3 percent of PacifiCorp's 2000 gross revenues (\$761.1 million).

In a Stipulation signed by Staff and PacifiCorp (Attachment B), Staff agreed to recommend that the Commission grant partial approval of the company's deferred accounting application in Docket UM 995, up to \$22.8 million. This Stipulation allows discussion on an appropriate mechanism to continue, while at the same time affording the company an opportunity to begin recovery of its excess net power costs. The Stipulation states: "...Staff expressly reserves its position with respect to the deferral and amortization of the remaining excess net power costs for which the Company is seeking deferral authority in its Application in this docket." The Stipulation further states "The parties agree that PacifiCorp, in limiting its request in its January 18 tariff filing to \$22.8 million, is not waiving its right to seek deferral and amortization of all excess net power costs incurred since November 1, 2000, as requested in its Application."

UE 121

On January 18, 2001, PacifiCorp filed an Application to Waive Statutory Notice and Advice No. 01-002, docketed as UE 121, requesting approval of the tariff sheets necessary to implement Schedule 94, which would commence rate recovery of the \$22.8 million authorized for deferral in Docket UM 995.

The company had originally proposed recovering the deferred net power costs as part of Docket UE 116. However, given the magnitude of increases in power costs PacifiCorp has experienced, the company is proposing to commence amortizing some of the deferrals in rates immediately. ORS 757.259(4) states that deferred amounts may be recovered in rates only to the extent authorized by the Commission "...in a proceeding to change rates." Docket UE 121 (Advice No. 01-002) is such a proceeding.

Staff requested that the company voluntarily offer to refund customers any amount the Commission might subsequently find was not warranted. The company declined, but did recognize in Bruce Hellebuyck's testimony (page 3, lines 18-21) that a party could file a complaint under ORS 757.210 seeking a hearing on the authorized rate change. After such a hearing, the Commission could find the 3 percent increase was not warranted and order a refund.

ORS 757.259(4) requires an earnings review at the time of the application to amortize a deferral. In his testimony, Bruce Hellebuyck (page 4, lines 1-10) states that the company's earnings were recently examined in UE 111, which concluded in September 2000.

PacifiCorp experienced power cost increases in November and December, which the company alleges, depressed earnings far below that allowed in UE 111. PacifiCorp submits that this information provides sufficient financial results data with which to determine the company's earnings for a period reasonably representative of the time period for which the deferral is sought. Staff believes those revenues and expenses from UE 111 are reasonably representative of current revenues and expenses, except for power costs, and can be relied upon as an earnings review. Staff's analysis of the company's earnings indicates that with PacifiCorp's power cost increases since November 1, 2000, the company's earned return is below the bottom of the range for a reasonable rate of return. Therefore, Staff recommends the company be allowed to recover deferred excess net power costs of up to \$22.8 million beginning February 1, 2001.

The company proposes to implement Schedule 94 as of February 1, 2001. PacifiCorp believes an early implementation date would achieve a better matching of the costs incurred by the company with the customers receiving the benefits of the power supplied. In addition, the company believes an early implementation would provide more promptly to customers a price signal that the company's power costs have increased, and encourage energy conservation.

Schedule 94 is designed to recover \$22.8 million on an equal cents/kWh basis for forecast kWh sales for the 12 months ending December 31, 2001 from all standard tariff customers or special contract customers with prices linked to Schedule 47T or 48T prices. Staff believes the company's proposed rate spread is appropriate because the increase is related to generation costs.

Summary

With this proposed change, the monthly bill of a typical residential customer using 1,022 kWh per month will increase by \$1.66, from \$65.34 to \$67.00, or 2.55 percent. A summary of the proposed tariff and revenue changes for PacifiCorp's major rate schedules is shown in Attachment A.

ADDITIONAL PROCEEDINGS:

Condition 5 of the signed Stipulation between Staff and PacifiCorp states: "Staff will support PacifiCorp's request to the Commission for an expedited schedule with respect to the remaining issues in UM 995." The company is requesting a special public meeting of the Commission to allow examination of the proposed treatment of the additional excess net power costs. The company states it "...respectfully requests that such a meeting be scheduled for the week of January 29." The company believes policy guidance from the Commission would be helpful to resolution of the outstanding issues in UM 995.

While Staff supports the company's wish for an expedited schedule, we are not convinced a special public meeting is the best forum for resolution of the outstanding issues. Staff proposes that the parties prepare briefs to the Commission under an expedited schedule. Staff believes the briefing could be done on an expedited basis because there are no facts in dispute. The differences between parties lies in the mechanism that allows the deferral amount to be calculated. If the Commission wished clarification or further discussion of the issues in contention, it could schedule a special public meeting for that purpose. Staff is uncertain that introducing the different mechanisms and then debating the merits of them before the Commission in a special public meeting would be productive. Staff believes it would be more helpful to inform the Commission through a briefing process and let the Commission decide if a special public meeting would provide additional needed information.

STAFF RECOMMENDATION:

I recommend the following:

1. The Commission approve PacifiCorp's request in Docket UM 995 for a partial deferral of net power costs up to \$22.8 million.
2. The Commission approve PacifiCorp's Application to Waive Statutory Notice and allow the proposed tariff sheets filed in Advice No. 01-002 to become effective with service on and after February 1, 2001.
3. The Commission indicate its preference for an expedited schedule in Docket UM 995.

Attachments