

ORDER NO. 14 209

ENTERED JUN 10 2014

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UI 345

In the Matter of

PACIFICORP, dba PACIFIC POWER,

Request for Approval of a Share Assessment  
Agreement with Huntington Cleveland  
Irrigation Company.

ORDER

**DISPOSITION: STAFF'S RECOMMENDATION ADOPTED**

At its public meeting on June 10, 2014, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:



*Becky L. Beier*

**Becky L. Beier**  
Commission Secretary

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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ITEM NO. CA8

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 10, 2014**

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: May 21, 2014

TO: Public Utility Commission

FROM: Linnea Wittekind *W* *MLG* *MB* *MA*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman

SUBJECT: PACIFICORP: (Docket No. UI 345) Requests Approval of Affiliated Interest Agreement with Huntington Cleveland Irrigation Company.

**STAFF RECOMMENDATION:**

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (PacifiCorp or Company) application for approval of an Affiliated Interest Agreement with Huntington Cleveland Irrigation Company (HCIC), an affiliated interest, subject to the following conditions:

1. PacifiCorp shall notify the Commission of any substantive changes to the Agreement, including any material changes in price or other parameters specified in the Agreement. Any such changes shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
2. PacifiCorp shall report to the Commission, as part of its annual affiliated interest report, all transactions entered into under the Agreement with HCIC.

**DISCUSSION:**

PacifiCorp filed this application with the Commission on February 24, 2014, pursuant to ORS 757.495(1) and OAR 860-027-0040. HCIC is a non-profit company that holds water rights to the Huntington Creek drainage, located in Utah, and its tributaries. PacifiCorp owns approximately one-third of the shares of HCIC. Additionally, HCIC manages access to certain water supplies on behalf of PacifiCorp. The Company primarily uses the water obtained through HCIC as part of the supply to its Huntington Plant located in Emery County, Utah.

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"Affiliated interest," as defined in ORS 757.015(3), includes every corporation five percent or more of whose voting securities are owned by any corporation or person owning five percent of the voting securities of a public utility or in any successive chain of ownership of a public utility. PacifiCorp's ownership interest in HCIC qualifies as an affiliated interest.

Recently the board of directors with HCIC approved a share use reclassification for its municipal and industrial water users, and a rate increase for all HCIC shareholders. HCIC and the Company entered into a new share assessment agreement to reflect the decision made by the HCIC Board of Directors. Under the Utah Share Assessment Act<sup>1</sup>, HCIC's Board of Directors sets the value of the share assessments for its water users, which are divided into different classes much like electric utilities.

The resolution restructuring classifications was passed on October 12, 2013, creating a new category of shares known as "Industrial" and to include PacifiCorp's shares in HCIC in that category. The Company was previously classified as "Municipal/Industrial". The resolution also approved a new share assessment ratio for the Industrial class, which effectively represents a rate increase<sup>2</sup>. The Board essentially decided to increase the rates to PacifiCorp because of perceived greater economic value received by PacifiCorp for the water as compared to irrigation users.

Prior to the share restructuring the Company had a previous affiliated interest agreement with HCIC under Order No. 10-353, Docket No. UI 300.

Staff's review of this application included examination of the Company's current application and HCIC Board meeting minutes. Staff also reviewed the Agreement and the Company's responses to ten data requests.

#### Issues

Staff investigated the following issues:

1. Terms and Conditions of the Agreement;
2. Transfer Pricing;
3. Public Interest Compliance; and
4. Records Availability, Audit Provisions, and Reporting Requirements.

#### Terms and Conditions of the Agreement

The Agreement is between PacifiCorp and Huntington Cleveland Irrigation Company. PacifiCorp participates in the Agreement through a Share Assessment Agreement by

<sup>1</sup> Utah Code § 16-4-101, et. seq.

<sup>2</sup> PacifiCorp's representative on the Board of Directors voted against the resolution.

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and between Huntington Cleveland Irrigation Company and PacifiCorp. Staff reviewed the Agreement and did not find any unexpected or unusual terms or conditions.

#### Transfer Pricing

Under the reclassification of the Share Assessment Agreement, as an Industrial user, PacifiCorp will pay a 5:1 ratio to the share assessment for irrigation users. PacifiCorp anticipates spending approximately \$530,000 per year under the eleven-year Share Assessment Agreement. PacifiCorp acted to protect the interest of its customers by opposing the change in pricing by voting no on the pricing proposal; however PacifiCorp's no vote did not prevail or change the outcome.

#### Public Interest

According to the Company, water access is limited in the area and PacifiCorp continues to rely on the supply from HCIC for effective operation of the Huntington Plant for safe and reliable electric service. HCIC believes the Industrial Shares Assessment Restructuring and Increase was necessary in order to adequately fund ongoing HCIC operations, more equitably balance the assessment burden between share water use categories, and better reflects the benefit PacifiCorp receives pursuant to the Company's shares as compared to benefits of other shareholders.

PacifiCorp has thoroughly explored other water supply options to meet the needs the Huntington Plant, but the results show no other options exist. Because of this, HCIC is the least cost/least risk water supply option.

Based on Staff's review, Staff finds the Agreement to be in the public interest.

#### Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all affiliated transactions of the Company through both its annual affiliated interest report and in general rate case filings. Staff's recommended Conditions provide for all necessary Commission examination of PacifiCorp's records concerning the Agreement with HCIC. PacifiCorp has reviewed this memo and has not communicated any objections or concerns.

Based on the review of this application, Staff concludes:

1. The application regards an affiliated interest agreement that is fair and reasonable and not contrary to the public interest with inclusion of the proposed ordering conditions; and
2. Necessary records are available.

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**PROPOSED COMMISSION MOTION:**

PacifiCorp's application for approval of the Agreement with HCIC, an affiliated interest, be approved subject to Staff's recommended conditions.