

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UE 298

In the Matter of  
PACIFICORP, dba PACIFIC POWER  
2014 Power Cost Adjustment Mechanism.

ORDER

DISPOSITION: STIPULATION ADOPTED

**I. SUMMARY**

On May 15, 2015, PacifiCorp, dba Pacific Power, filed its annual power cost adjustment mechanism (PCAM) to recognize the difference between actual and forecasted power costs. In its filing, PacifiCorp showed no 2014 power cost adjustment refund or collection from customers after application of the earnings test. Following a settlement conference, the parties to these proceedings agreed to a stipulation providing that there should be no change in PacifiCorp's rates. In this order, we adopt the parties' stipulation.

**II. BACKGROUND**

We adopted a PCAM for PacifiCorp in Order No. 12-493.<sup>1</sup> The PCAM allows the recovery or refund of the difference between the company's actual net power costs incurred to serve customers and the base net power costs established in the company's annual transition adjustment mechanism (TAM) filing. This docket is PacifiCorp's second PCAM filing before the Commission.<sup>2</sup>

PacifiCorp's PCAM contains a deadband, sharing mechanism, earnings test, and amortization cap.<sup>3</sup> The asymmetric deadband requires the company to absorb some normal variation of power costs, and is set at a negative annual power cost variance of \$15 million and a positive annual power cost variance of \$30 million. Any amount above or below the deadband is subject to the sharing mechanism and earnings test.

<sup>1</sup> See *In the Matter of PacifiCorp, dba Pacific Power Request for a General Rate Revision*, Docket No. UE 246, Order No. 12-493 at 14-15 (Dec 20, 2012) (establishing features of PacifiCorp's PCAM).

<sup>2</sup> See *In the Matter of PacifiCorp, dba Pacific Power 2013 Power Cost Adjustment Mechanism*, Docket No. UE 290, Order No. 14-357 (Oct 16, 2014) (adopting parties' stipulation that PacifiCorp's PCAM calculation for 2013 resulted in no change to existing rates after application of earnings test).

<sup>3</sup> Portland General Electric Company's PCAM contains the same components. See e.g., *In the Matter of Portland General Electric Company 2014 Annual Power Cost Variance Mechanism*, Docket No. UE 299, Order No. 15-317 (Oct 15, 2015).

The sharing mechanism, which was established to provide PacifiCorp the incentive to manage costs effectively, allocates 90 percent of the remaining variance to customers and 10 percent to PacifiCorp. The earnings test, which helps guard against over- and under-earning, eliminates any power cost adjustment if the company earns within plus or minus 100 basis points of its allowed return on equity (ROE). Finally, an amortization cap limits amortization of deferred amounts under the PCAM in any year to 6 percent of PacifiCorp's revenues for the preceding calendar year.

PacifiCorp calculates its PCAM by applying the above guidelines, and any resulting adjustment is reflected in its tariff Schedule 206. In its filing, PacifiCorp includes a cover letter and attachments describing its 2014 baseline and actual power costs, its earnings test, and its calculations for the PCAM.

### III. PACIFICORP'S FILING

In its 2014 PCAM filing, PacifiCorp reports that its 2014 actual net power costs exceeded its estimated costs by about \$36.1 million on an Oregon-allocated basis.<sup>4</sup> PacifiCorp then applied the deadband, sharing mechanism, and earnings test to determine whether any of this variance should be recovered from customers.

Because the deadband provides that any net power cost difference within positive \$30 million will be absorbed by the company, PacifiCorp's calculations show \$6.1 million exceeded the deadband. Next, PacifiCorp applied the sharing mechanism to allocate any amount above or below the deadband 90 percent to customers and 10 percent to the company, leaving approximately \$5.5 million as potentially recoverable from customers. PacifiCorp's last step was to apply the earnings test, and because the company's earned ROE was within plus or minus 100 basis points of the allowed ROE, there is no recovery from customers for 2014. PacifiCorp states that its earned ROE for 2014 was 8.92 percent, and its authorized ROE is 9.8 percent.

Since the company's current Schedule 206 includes no rate adjustment for PCAM deferrals, there is no change required to customers' rates.

### IV. REVIEW AND STIPULATION

A prehearing conference was held in this docket on June 15, 2015. The Industrial Customers of Northwest Utilities (ICNU) was granted party status. The Citizens' Utility Board of Oregon (CUB) intervened as a matter of right under ORS 774.180. No other party intervened in this docket.

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<sup>4</sup> PacifiCorp forecasted its 2014 net power costs in its 2014 TAM, docket UE 264, with Oregon-allocated net power costs forecasted as \$363.1 million. In this docket, PacifiCorp filed its costs on a total-company basis, but indicates that, on an Oregon-allocated basis, its actual 2014 net power costs exceeded its forecast by \$36.1 million.

The parties held a settlement conference on July 29, 2015. Following these discussions, and before the Commission Staff or any intervenor filed testimony, PacifiCorp, Staff, CUB, and ICNU submitted a stipulation and joint supporting testimony on September 25, 2015. The stipulation and joint supporting testimony are admitted into the record. The stipulation is attached to this order as Appendix A.

The settlement provides that the company's PCAM calculation for 2014, as set forth in the initial filing and summarized in the settlement, complies with Order No. 12-493 and results in no change to existing rates.

As part of the stipulation, PacifiCorp agrees to provide additional information to help parties better match cost category labels used in the TAM and the PCAM. The settling parties agree that, in future PCAM filings, PacifiCorp will include additional information explaining how cost category labels for actual and modeled short term market transactions used in forecast net power costs relate to cost category labels used in the PCAM for analogous transactions.

The settling parties request that the Commission adopt the settlement as presented.

#### **V. DISCUSSION**

In its application, PacifiCorp stated that no rate change would be required in this proceeding because the company's earned ROE was within 100 basis points of its allowed ROE. By their review of PacifiCorp's filing and work papers, the parties confirmed PacifiCorp's findings and reached their settlement in this case.

We find the settlement reasonable and in the public interest. The stipulation should be adopted.

VI. ORDER

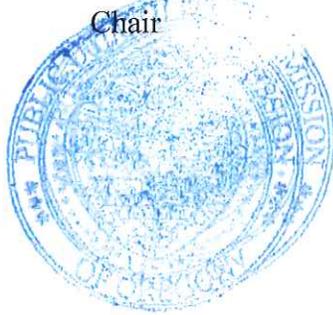
IT IS ORDERED THAT:

1. The stipulation between PacifiCorp, dba Pacific Power; Staff of the Public Utility Commission of Oregon; the Citizens' Utility Board of Oregon; and the Industrial Customers of Northwest Utilities, attached as Appendix A is adopted.
2. PacifiCorp, dba Pacific Power's Schedule 206 rates should continue to be set at zero effective January 1, 2016.

Made, entered, and effective NOV 25 2015.



**Susan K. Ackerman**  
Chair



**John Savage**  
Commissioner



**Stephen M. Bloom**  
Commissioner

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.

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
UE 298

In the Matter of  
PACIFICORP d/b/a PACIFIC POWER  
2014 Power Cost Adjustment Mechanism.

STIPULATION

INTRODUCTION

1           1. PacifiCorp d/b/a/ Pacific Power (PacifiCorp or Company), Staff of the Public  
2 Utility Commission of Oregon (Commission Staff), the Citizens' Utility Board of Oregon  
3 (CUB), and the Industrial Customers of Northwest Utilities (ICNU) (collectively the  
4 Settling Parties) enter into this Stipulation to resolve all issues in docket UE 298,  
5 PacifiCorp's 2014 power cost adjustment mechanism (PCAM). No other party intervened  
6 in this docket.

BACKGROUND

7           2. The Public Utility Commission of Oregon (Commission) approved  
8 PacifiCorp's PCAM in Order No. 12-493 in docket UE 246. The PCAM allows the  
9 recovery or refund of the difference between actual net power costs (NPC) incurred to  
10 serve customers and the base NPC established in the Company's annual transition  
11 adjustment mechanism (TAM) filing. The amount recovered from or refunded to  
12 customers for a given year is subject to the following parameters:

- 13           • Asymmetrical Deadband—Any NPC difference between negative \$15 million and  
14           positive \$30 million is absorbed by the Company.
- 15           • Sharing Mechanism—Any NPC difference above or below the deadband is shared  
16           90 percent by customers and 10 percent by the Company.
- 17           • Earnings Test—If the Company's earned return on equity (ROE) is within plus or  
18           minus 100 basis points of the allowed ROE, there is no recovery from or refund to  
19           customers.

1 • Amortization Cap—The amortization of deferred amounts are capped at six percent  
2 of the revenue for the preceding calendar year.<sup>1</sup>

3 3. On May 15, 2015, the Company filed its PCAM for calendar year 2014.  
4 Attachment A to this Stipulation is a summary of the Company's PCAM calculation. On a  
5 total-company basis, adjusted actual NPC were \$1.6 billion for calendar year 2014, which  
6 is approximately \$154.4 million higher than the base NPC of \$1.45 billion established in  
7 the 2014 TAM (docket UE 264). On an Oregon-allocated basis, actual NPC exceeded base  
8 NPC by approximately \$36.1 million.

9 4. After application of the deadband and sharing band, approximately \$5.5  
10 million of excess NPC is eligible for recovery from customers. Application of the earnings  
11 test, however, results in no recovery in the 2014 PCAM because the Company's earnings  
12 for calendar year 2014 are within 100 basis points of its authorized ROE. Attachment B  
13 shows the calculation of the Company's earned ROE for calendar year 2014, which is  
14 based on the Company's results of operations through December 2014.<sup>2</sup> The Company's  
15 earned ROE for 2014, which reflects results of operations after all Type 1 adjustments and  
16 the removal of the normalization of loads and hydro conditions, was 8.92 percent. The  
17 Company's authorized ROE is 9.8 percent.<sup>3</sup> Since the Company's current Schedule 206  
18 includes no rate adjustment for PCAM deferrals, there is no change required to customers'  
19 rates at this time.

20 5. The Settling Parties held a settlement conference on July 29, 2015. This  
21 conference resulted in an agreement resolving all issues in this docket.

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<sup>1</sup> *In the Matter of PacifiCorp d/b/a Pacific Power's Request for a General Rate Revision*, Docket No. UE 246, Order No. 12-493 at 15 (Dec. 20, 2012).

<sup>2</sup> The Company filed its results of operations for calendar year 2014 with the Commission on April 30, 2015.

<sup>3</sup> *In the Matter of PacifiCorp d/b/a Pacific Power's Request for a General Rate Revision*, Docket No. UE 263, Order No. 13-474 at 4 (Dec. 18, 2013).

AGREEMENT

1           6. The Settling Parties agree that the Company's PCAM calculation for calendar  
2 year 2014, as set forth in the Company's initial filing and summarized above, complies  
3 with Order No. 12-493 and results in no change to existing rates.

4           7. The Settling Parties agree that the Company will include, in its future PCAM  
5 filings, additional information explaining how cost category labels for actual and modeled  
6 short term market transactions used in forecast NPC relate to cost category labels used in  
7 the PCAM for analogous transactions.

8           8. The Settling Parties agree to submit this Stipulation to the Commission and  
9 request that the Commission approve the Stipulation as presented. The Settling Parties  
10 agree that this Stipulation will result in rates that meet the standard in ORS 756.040.

11           9. This Stipulation will be offered into the record as evidence under  
12 OAR 860-001-350(7). The Settling Parties agree to support this Stipulation throughout  
13 this proceeding and any appeal, provide witnesses to sponsor this Stipulation at hearing, if  
14 required, and recommend that the Commission issue an order adopting the Stipulation.

15           10. The Settling Parties have negotiated this Stipulation as an integrated  
16 document. If the Commission rejects all or any material portion of this Stipulation or  
17 imposes additional material conditions in approving this Stipulation, any of the Settling  
18 Parties are entitled to withdraw from the Stipulation or exercise any other rights provided  
19 in OAR 860-001-0350(9). To withdraw from the Stipulation, a Settling Party must provide  
20 written notice to the Commission and other Settling Parties within five days of service of  
21 the final order rejecting, modifying, or conditioning this Stipulation.

22           11. By entering into this Stipulation, no Settling Party approves, admits, or  
23 consents to the facts, principles, methods, or theories employed by any other Settling Party

1 in arriving at the terms of this Stipulation other than those specifically identified in the  
2 body of this Stipulation. Nothing in this Stipulation limits the issues that any Settling Party  
3 may raise in future proceedings.

4 12. This Stipulation is not enforceable by any Settling Party unless and until  
5 adopted by the Commission in a final order. Each signatory to this Stipulation avers that  
6 they are signing this Stipulation in good faith and that they intend to abide by the terms of  
7 this Stipulation unless and until the Stipulation is rejected or adopted only in part by the  
8 Commission. The Settling Parties agree that the Commission has exclusive jurisdiction to  
9 enforce or modify the Stipulation. If the Commission rejects or modifies this Stipulation,  
10 the Settling Parties reserve the right to seek reconsideration or rehearing of the Commission  
11 order under ORS 756.561 and OAR 860-001-0720 or to appeal the Commission order  
12 under ORS 756.610.

13 13. This Stipulation may be executed in counterparts and each signed counterpart  
14 constitutes an original document.

15 This Stipulation is entered into by each Settling Party on the date entered below  
16 such Settling Party's signature.

PACIFICORP

STAFF

By: [Signature]

By: \_\_\_\_\_

Date: 9/25/15

Date: \_\_\_\_\_

CUB

ICNU

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

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PACIFICORP

STAFF

By: \_\_\_\_\_

By: Mike \_\_\_\_\_

Date: \_\_\_\_\_

Date: 9/24/15 \_\_\_\_\_

CUB

ICNU

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

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PACIFICORP

STAFF

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

ICNU

By: *Sumner*

By: \_\_\_\_\_

Date: 9/16/15

Date: \_\_\_\_\_

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PACIFICORP

STAFF

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

ICNU

By: \_\_\_\_\_

By:  \_\_\_\_\_

Date: \_\_\_\_\_

Date: 9-24-15 \_\_\_\_\_