

Agenda Date: September 24, 2015  
Item Number: A3

**Docket:** UE-144136  
Company: Pacific Power & Light Company

Staff: Jeremy Twitchell, Regulatory Analyst

### **Recommendation**

Issue an order in Docket UE-144136 approving Pacific Power & Light Company's petition for authorization to exchange certain transmission assets with Idaho Power Company, subject to the following conditions:

1. Pacific Power & Light Company must notify the Washington Utilities and Transportation Commission of any material changes to the proposed transaction within 10 business days; and
2. Pacific Power & Light Company must notify the Washington Utilities and Transportation Commission when the exchange is completed.

### **Background**

Pacific Power & Light Company (Pacific Power or company) filed this petition with the Washington Utilities and Transportation Commission (commission) on December 19, 2014, which requests authorization to exchange approximately \$43 million in company-owned transmission assets for approximately \$43 million in transmission assets owned by Idaho Power Company (Idaho Power).<sup>1</sup> The company's petition states that the purpose of the transaction is to update or replace a series of complicated transmission agreements through a combination of ownership exchanges and open access transmission tariff (OATT) transactions. RCW 80.12.020 and WAC 480-143-120 require a utility to obtain commission approval before selling or transferring an asset that serves Washington customers.

Pacific Power and Idaho Power are joint owners of the 2,100-MW Jim Bridger coal plant in Wyoming, with Pacific Power owning two-thirds of the plant's output and Idaho Power owning one-third. The plant entered service in 1974, and transmission of its output into the two utilities' service territories has been established through a series of three agreements and 14 supporting tariffs, which the company's filing refers to as legacy agreements.<sup>2</sup> Collectively, the legacy agreements create a complicated framework of transmission ownership and wheeling rights. Most importantly for Pacific Power, which had not yet merged with Utah Power & Light Company, the legacy agreements outline the company's rights for wheeling its share of Bridger's output (about 1,400 MW) across Idaho Power's system to serve loads in the Pacific Northwest.

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<sup>1</sup> For the purposes of the transfer, the value of all assets is calculated on a net book value basis. Any variance in the net book value of the two groups of assets would be addressed through a cash transfer.

<sup>2</sup> The three primary legacy agreements are the Restated Transmission Service Agreement, the Restated and Amended Transmission Facilities Agreement, and the Interconnection and Transmission Service Agreement.

In 1996, the Federal Energy Regulatory Commission (FERC) issued Order 888, which required electric utilities that own interstate transmission lines to provide all service on those lines through non-discriminatory OATTs. While Order 888 prevented new agreements like those between Pacific Power and Idaho Power, it allowed existing ones to remain in place with the crucial caveat that such agreements were still subject to the non-discriminatory pricing requirement.<sup>3</sup>

Washington is the last jurisdiction to act on this petition; it has been approved by FERC and the regulatory commissions of four other states. Attachment A summarizes each entity's decision and the conditions of approval that it imposed.

### **Transaction Details**

The proposed asset transfer would change the ownership structure of the lines that Pacific Power uses to move power from Wyoming to the Pacific Northwest, but it would not result in any additional transfer capacity. At present, Pacific Power has the ability to move 1,600 MW of capacity into the Pacific Northwest. If the transfer is approved and executed, Pacific Power will still have 1,600 MW of transfer capacity.

The difference is that where Idaho Power now owns the lines on which Pacific Power moves that 1,600 MW and provides service pursuant to the terms of the legacy agreements, Pacific Power would acquire ownership of 1,090 MW of transfer capacity and purchase another 510 MW under Idaho Power's OATT. Of that 510 MW, the company would be able to dynamically schedule 400 MW, whereas it can dynamically schedule 200 MW at present.<sup>4</sup>

The transaction implicates 12 substations and 13 line segments. One of its primary purposes is to re-allocate ownership of the three, 345-kV transmission lines that make up the Bridger West system. At present, Pacific Power owns two of those lines (which flow into southern Idaho), and Idaho Power owns the third line (which flows into Idaho's east central area). The transaction would redefine ownership of those lines with Pacific Power owning two-thirds of each line and Idaho Power owning one-third of each line.

At a high level, each utility gains the following in the transaction:

#### *Pacific Power:*

- One-third of the capacity of the Bridger-Three Mile Knoll-Goshen line, which would allow the company to better serve its Idaho territory; and
- One-third of the capacity of the Kinport-Midpoint line and the two Borah-Adelaide-Midpoint lines (1,090 MW total), which would reduce the company's need to wheel power across Idaho Power's system.

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<sup>3</sup> FERC Order 888 at 277-278.

<sup>4</sup> Dynamic scheduling means that the amount of power moved over the line can be adjusted within the hour. Under traditional scheduling, it can only be adjusted hourly.

*Idaho Power:*

- One-third of the capacity in the Bridger-Populus-Kinport and Bridger-Populus-Borah lines, which would give Idaho Power additional paths for moving its share of Bridger output to its service territories in Idaho and Oregon; and
- One-third of the capacity on the Midpoint-Hemingway-Summer Lake line, which would give Idaho Power additional access to the Bonneville Power System and market hubs in Oregon and California.

A number of additional facilities are involved in the transaction; the specific exchanges identified above are staff's analysis of the primary value drivers for each utility.

**Discussion**

WAC 480-143-170 requires utility transfers to be "consistent with the public interest." In previous property transfer requests, the commission has interpreted this rule:

As a 'no-harm' standard. That is, we will deny the application if the transaction is not consistent with the public interest, but will approve it, if the applicant demonstrates that the transaction, on balance, at least does not harm.<sup>5</sup>

In determining whether the no-harm standard has been met, the commission has established a four-part test:

- The rates and risks faced by ratepayers;
- The balance of interests among customers, shareholders, and the broader public;
- The effect of the transaction on competitive markets; and
- Protection of the interests of Washington ratepayers.<sup>6</sup>

Based on the company's filing and responses to staff's data requests, staff believes that the petition satisfies the four-part test as outlined below.

*The rates and risks faced by ratepayers*

Pacific Power represents that the transaction is not expected to affect the company's rates.<sup>7</sup> In testimony submitted with the filing, the company states that the transaction is "financially neutral" to retail customers.<sup>8</sup> In response to a staff data request asking for more detail, the company indicated that the potential impacts of the transaction on Washington rates would be a near-term increase of about \$575,000, but cautioned that any actual increase would depend on

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<sup>5</sup> Docket UE-991255, Second Supplemental Order (March 6, 2000) ¶ 29.

<sup>6</sup> *Id.*

<sup>7</sup> *Petition for and Order Authorizing the Exchange of Certain Transmission Assets*, Docket UE-144136 (Dec. 19, 2014) ¶ 18.

<sup>8</sup> GND-1T, page 2 at 21-22.

the test period used.<sup>9</sup> By staff's estimate, \$575,000 would represent an increase of about 0.2 percent, or \$0.23 per month for the average residential customer.

In balance of that potential increase, the company identifies non-quantifiable benefits such as increased efficiency and transparency in its transmission operations, opportunities to share costs with Idaho Power on future projects, and additional rights on Idaho Power's system through OATT transactions, such as reassignment, redirection and rollover.

The transaction appears to slightly reduce risks for Washington ratepayers in two ways. The first is reducing the impact of line outages. As stated above, Pacific Power currently owns a full share of two transmission lines out of the Bridger plant. If one goes down, the company only has one other line to replace it. The proposed transaction would give the company a two-thirds share in each of three lines, meaning that if one goes down, the company has one and one-third lines to replace it.

The second potential risk reduction comes from the company's reduced need for wheeling. By acquiring a larger ownership interest in the lines it uses to move power across Idaho, the company will reduce the need for wheeling on Idaho Power's system. This could provide immediate benefits, as Idaho Power has a pending request before FERC to increase its OATT rates by as much as 46 percent.<sup>10</sup>

While the benefits are largely intangible or unquantifiable at this point, a potential rate increase of 0.2 percent appears reasonable to attain them. Based on this analysis, staff believes that the proposed transaction's projected impact on the rates and risk for Washington ratepayers would not be harmful.

*The balance of interests among customers, shareholders, and the broader public*

As stated above, the proposed transaction appears to create some benefit to Washington ratepayers, though those benefits are likely small and difficult to quantify.

Pacific Power's shareholders have an interest in this transaction because it improves the company's ability to serve Idaho loads and it positions the company for a strategic relationship with Idaho power to share costs on future transmission projects.

In the Wyoming Public Service Commission proceeding on this matter, the company represented that the impetus for the proposed exchange was a 2013 power outage in its Idaho service territory that prompted the company to begin negotiating with Idaho Power for additional transmission

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<sup>9</sup> Pacific Power response to WUTC Data Request 8. The company projected that the transaction could reduce Washington-allocated assets by \$175,000 and increase power costs by \$750,000. The increase in power costs is the result of moving to OATT-based rates for wheeling on Idaho Power's system.

<sup>10</sup> FERC Docket ER15-2292.

capacity.<sup>11</sup> The proposed exchange gives the company the ability to better serve its Idaho territory without appearing to harm any of its other territories.

On the second point, the company argues that the proposed exchange creates a strong foundation for Pacific Power and Idaho Power to work together on future projects of mutual interest.<sup>12</sup> This is a minor, intangible benefit, but one worth noting as meeting the interests of shareholders.

Based on this review, staff believes that the proposed agreement serves the interests of Washington ratepayers and company shareholders without harming either party.

#### *The effect of the transaction on competitive markets*

From a competitive standpoint, the proposed exchange's most significant impact would be the increased capacity for Pacific Power to dynamically schedule power across Idaho Power's system. Through the MSP process, staff understands that the company has fully allocated the dynamic overlay for making transactions in the Energy Imbalance Market (EIM) with the California Independent System Operator (CAISO). Increasing the dynamic overlay from 200 MW to 400 MW would allow for more transfers between Pacific Power and CAISO, thereby increasing the depth of that market and the cost savings that the company has realized since entering the EIM.

For Idaho Power, the transaction appears to improve the company's ability to access energy market hubs in Oregon and California.

Based on this review, staff believes that the proposed exchange would increase market access in the region. Staff did not identify any potential anti-competitive outcomes of the agreement.<sup>13</sup>

#### *Protection of the interests of Washington ratepayers*

Washington is the only state in the company's six-state system that has not signed onto the 2010 Protocol, which determines how the company's costs are divided amongst the states. For the purposes of Washington ratemaking, the commission has directed Pacific Power to use the Western Control Area (WCA) methodology, which primarily allocates Washington's costs based only on the costs that the company incurs to serve its western balancing area (Washington, Oregon and California).<sup>14</sup> In ordering the WCA, the commission determined that the company had not demonstrated that resources in its east balancing area (generally Utah, Wyoming and

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<sup>11</sup> Public Service Commission of Wyoming, *In the Matter of the Application of Rocky Mountain Power for an Order Authorizing the Exchange of Certain Transmission Assets with Idaho Power Company*, Record No. 14043, Order (Aug. 7, 2015) ¶ 8.

<sup>12</sup> *Petition for and Order Authorizing the Exchange of Certain Transmission Assets*, Docket UE-144136 (Dec. 19, 2014) ¶ 20.

<sup>13</sup> Several parties raised concerns about the exchange's potential impact on competitive markets before FERC, but FERC refuted those claims. See Attachment A.

<sup>14</sup> The Jim Bridger plant in Wyoming and the Colstrip plant in Montana are located in the company's west balancing area, due to their primary interconnections to the Pacific Northwest.

Idaho) were used and useful for serving Washington ratepayers.<sup>15</sup> The commission also established a test for determining whether a resource in the company's east balancing area could be included in the WCA – “whether it provides quantifiable direct or indirect benefits to Washington commensurate with its cost.”<sup>16</sup>

The company has not proposed a different methodology for Washington since the establishment of the WCA. This proposed transaction would grant the company some increased flexibility; it would be the company's prerogative to request to change the WCA and the commission's authority to determine whether changes are warranted.

Staff, however, does not believe that this exchange would affect the WCA, and Pacific Power appears to agree. Staff asked the company to model how the proposed transaction would change the way that it dispatches its system, and the company responded that it had not done that study because

There would be no changes in modeled transfers in a West Control Area (WCA) Generation and Regulation Initiative Decision Tool (GRID) study because none of the resources in PacifiCorp's east balancing authority area (BAA) are included in the WCA methodology and therefore are not available for transfer under the currently approved WCA methodology.<sup>17</sup>

In response to another staff data request, the company stated that after the exchange “there will be no change in paths used to move power from Jim Bridger to the Pacific Northwest.”<sup>18</sup> Based on these responses, staff concludes that the transaction would not materially change the way that Pacific Power dispatches its system, and therefore no change in cost allocation would be warranted.

The proposed transaction does not appear to negatively affect the interests of Washington ratepayers, and the commission has established a process that ensures that were the company to represent increased costs as a result of this transaction, those costs could only be passed onto ratepayers if there is a commensurate benefit identified.

## **Conclusion**

The simplest way to summarize this proposed transaction is in terms of what it would do and what it would not do.

*What the transaction would do:*

- Increase reliability for the company's Idaho service territory;

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<sup>15</sup> Docket UE-050684, Order 04 ¶ 63.

<sup>16</sup> *Id.* ¶ 68.

<sup>17</sup> Company response to WUTC Data Request 7.

<sup>18</sup> Company response to WUTC Data Request 2.

- Increase the company's ability to serve loads in the west balancing area in certain line outage situations;
- Improve administrative efficiency by replacing the legacy agreements with transparent, OATT-based transactions;
- Improve prospects for cost sharing with Idaho Power on future transmission projects; and
- Increase Pacific Power's ownership in the transmission lines that it uses to serve the west balancing area, thereby reducing the need for wheeling on Idaho Power lines.

*What the transaction would not do:*

- Increase transmission capacity; or
- Change the way the company operates its system.

Staff's analysis of the proposed transaction concludes that, on balance, the proposed transaction does not appear to be harmful to Washington ratepayers. The potential for a minor rate increase is balanced by potential benefits such as improved operational efficiency, increased reliability and reduced wheeling expenses. Furthermore, the commission's practices ensure that any cost increases arising from this transaction will only be passed on to ratepayers if the company can identify commensurate benefits.

Staff therefore recommends that the commission grant the company's petition for an order authorizing the exchange, subject to the administrative conditions listed in the Recommendation section, which are intended to notify the commission of any substantive changes to the agreement and of the agreement's execution.

**Attachment A:**  
**Decisions of Other Jurisdictions**

Pacific Power was also required to seek approval of this transaction from FERC and from the state regulatory commissions in California, Idaho, Oregon and Wyoming. Utah's statutes only require an informational filing from the company; the transaction is not subject to approval by the Utah Public Service Commission. Every other jurisdiction has acted upon Pacific Power's request and approved it with varying conditions. Following is a brief summary of each jurisdiction's findings and ruling:

*FERC*

FERC issued an order approving the transaction on June 17, 2015. The body only imposed two administrative conditions, requiring Pacific Power and Idaho Power to notify FERC when the transaction is executed or cancelled, and update any tariffs affected by the transaction within 10 days of its closure.

Several parties intervened in the FERC filing and a handful expressed concerns with the transaction in written comments. The four major concerns were that the ownership exchanges seemed to be reallocating transmission access outside of the parties' OATTs, that Idaho Power unfairly granted Pacific Power increased dynamic transfer capability, that the exchange would result in a dramatic rate increase for Pacific Power's and Idaho Power's network customers and subsidize the utilities' own native load customers, and that FERC should consider whether the transaction would affect the ability of Pacific Power and Idaho Power to exercise market power in their respective balancing areas.

On the first concern, FERC ruled that ownership and access are not the same, and that Pacific Power and Idaho Power had established that access would be handled under their respective OATTs, regardless of which resources changed hands. On the second point, FERC ruled that Idaho Power's offering of increased dynamic transfer capability to Pacific Power was done according to established business practices. On the third point, FERC ruled that concerns about transmission rates would be addressed in the next transmission formula rate updates filed by Pacific Power and Idaho Power, and that the parties would have an opportunity to intervene in those proceedings. On the fourth point, FERC ruled that the proposed transaction had no bearing on its ongoing investigation into the market power of certain Berkshire Energy subsidiaries, including Pacific Power.

*California*

The California Public Utilities Commission (CPUC) unanimously approved the transaction on Aug. 27, 2015. The approval included a stipulation between the CPUC's Office of Ratepayer Advocates and Pacific Power that the company would, in its next general rate case, provide a full accounting of all assets exchanged, how their values were determined, and any necessary supporting information.



### *Idaho*

Idaho is one of two states that regulates both Pacific Power and Idaho Power. The Idaho Public Utilities Commission (IPUC) approved the transaction on June 5, 2015, after consolidating the separate applications of the two companies. Idaho's statute governing utility transactions require a utility to demonstrate that rates will not increase as a result of the transaction; IPUC determined that the company met that burden of proof. IPUC's approval came with the following conditions for Pacific Power:

- Pacific Power must establish a regulatory account to defer any reduced wheeling expenses and provide an annual report of that account;
- Pacific Power must file documentation of the true-up costs calculated at the deal's closing, final journal entries, an updated list of its common equipment with Idaho Power, the common line loss methodology that the company and Idaho Power proposed to use for joint facilities, and a yearly report showing the change in the company's wheeling expenses resulting from the transaction.

### *Oregon*

In Oregon, the other state that regulates both utilities, Pacific Power and Idaho Power filed a joint petition for approval of the exchange. The Oregon Public Utilities Commission (OPUC) granted the petition on June 9, 2015. OPUC accepted two staff-recommended conditions to the approval, which require the companies to notify the commission of any substantive changes to the agreement and to file the final journal entry recording the transaction within 60 days of the transaction's closure. Oregon's statute governing utility transactions require that they be in the public interest, which OPUC has interpreted to mean that a utility must show that the transaction will cause no harm to the public.

### *Wyoming*

The Wyoming Public Service Commission (WPSC) approved the transaction on August 7, 2015, subject to the conditions that the company notify WPSC in advance of any substantive changes to the agreement and that it file the final journal entry recording the transaction within 60 days of the transaction's closure.