Agenda Date: May 29, 2014
Item Number: A3

Docket: **UE-140617**
Company: Pacific Power & Light Company

Staff: Jason Ball, Regulatory Analyst
Juliana Williams, Regulatory Analyst

Recommendation

- Authorize Pacific Power & Light Company (PacifiCorp or company) to defer costs related to operation and maintenance expenses and depreciation expense for the Merwin Fish Collector on the condition that the company may not accrue interest on the balance during the deferral period.
- Issue a Complaint and Order Suspending the Tariff, if Power & Light Company does not withdraw the proposed Tariff.
- Consolidate the Tariff filing with the Pacific Power & Light Company's general rate case filed May 1, 2014, in docket UE-140762.

Background

On April 14, PacifiCorp filed a new tariff - Schedule 90 titled "Hydro Investment Adjustment." The purpose of this schedule is to recover the "mandatory environmental investments"[1] and costs associated with the Merwin Fish Collector project (Merwin Project). The proposed tariff would result in an overall increase of 0.5 percent, or $.60 per month, to the average customer using 1,300 kilowatt-hours per month. As an alternative to the separate tariff rider, PacifiCorp also included in its filing an accounting petition for authorization to defer the costs associated with the Merwin Project.

The Federal Energy Regulatory Commission (FERC) license required the Merwin Project as a condition to relicense the Lewis River hydroelectric project (License). PacifiCorp reached a settlement with 26 parties, including Cowlitz PUD, the Washington Department of Ecology, and the Washington Department of Fish and Wildlife, to receive a 50-year License from the FERC. One condition of the License was the construction of a fish passage system that collects and transports fish around the three dams covered by the License. The facility was designed, with PacifiCorp's input, by the various parties to the settlement.

PacifiCorp requested rate recovery of costs associated with the Merwin Project in its last general rate case (GRC). Staff testified that the inclusion of the Merwin Project in the development of rates was, at the time, premature.[2] Specifically, staff objected to the inclusion in rates of a project

[1] Petition of PacifiCorp at ¶7
[2] *Utilities & Transp. Commission v. PacifiCorp,* Docket No. UE-130043– Williams, Exhibit No. JMW-1CT at 5:18 – 6:3 (June 21, 2013).

that was not used and useful at the time of the filing. The commission rejected inclusion of the Merwin Project on the basis that the project was not used and useful until after rates were effective.[3] The prudency of the investment was not mentioned in Order 05. The Merwin Project went into service on March 28, 2014.

The company filed a GRC on May 1, 2014, in Docket UE-140762. The company included the Merwin Fish Collector as a rate base addition in their filing and will update the GRC pending the result of the proposed tariff filing in the present docket.[4]

<u>Analysis</u>

The company's proposed tariff rider implicitly requires that the commission perform a prudence determination on the Merwin Project. Staff has not yet performed a prudency review of the Merwin Project and believes the best forum for a recommendation on prudency continues to be a general rate case.

The company's alternative proposal is to defer the revenue requirement associated with the Merwin Project for recovery at a later date. Staff sees the nature of a deferral as more consistent with a prudency review process. As a general principle, staff views the holistic review conducted in a general rate case, expedited rate filing, or other in-depth rate setting mechanisms to be the most appropriate forum for evaluating prospective rates that reflect new rate base additions. However, the commission has stated that:

> …there is nothing that precludes [the company] from seeking additions to rate base between rate cases so long as the amounts are not so large as to trigger a general rate proceeding under our rules. If the investments are shown to be prudent, the amounts are reasonable, and the plant is demonstrated to be used and useful, the commission may exercise its discretion to allow recovery in rates. Important considerations guiding that discretion would be whether there has been a very recent general rate proceeding or the company commits to making a general rate filing soon after the additions are allowed.[5]

The nature of the Merwin Project, mandated by the License, allows PacifiCorp to continue its operation of the Lewis River hydroelectric project and ratepayers to benefit from low cost hydropower. Further, the rejection of the Merwin Project in the previous GRC by the commission was not related to the merits of the Merwin Project but rather because it was not yet

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[3] *Utilities & Transportation. Commission v. PacifiCorp,* Docket No. UE-130043– Order 05 at ¶203 (December 14, 2013).
[4] *Utilities & Transportation. Commission v. PacifiCorp,* Docket No. UE-140762– Siores, Exhibit No. NCS-1T at 7:22 – 8:6 (May 1, 2014).
[5] *Utilities & Transp. Comm'n v. PSE,* Docket UE-060266, Order 08 ¶ 51 (January 5, 2007)

in use to satisfy the requirements of the License.[6] The Merwin Project is now in-service and although the commission has not issued a determination of prudency, the project represents a cost imposed by another agency and occurring in between general rate proceedings.

Conclusion

Given the specific circumstances of the Merwin Project, staff recommends that the company be allowed to defer the operation and maintenance costs associated with the Merwin Project as well as the depreciation expense. This amount would be approximately $486,470 per year.[7] Staff recommends that the prudence evaluation of the Merwin Project be included in the company's recently filed GRC. As has been done in prior similar occasions,[8] the company should not be allowed to accrue interest on the deferral balance during the deferral period. This serves to address the commission's concerns about inter-period adjustments to rate base, specifically the implications of these adjustments to the commission's regulatory oversight.[9]

The company proposed accounting treatment for the Merwin Project in its initial filing as an alternative to its proposed Tariff rider. Therefore, staff hopes the company will agree to withdraw the tariff if the commission adopts staff's proposal. If the commission does not agree with staff's recommendation for approval of the accounting petition with conditions, then staff recommends that the tariff be suspended and consolidated into the company's pending GRC.

Staff notes that the conditions of the Merwin Project are unique and out-of-period deferrals of additions to rate base should be requested and allowed on an infrequent and unusual basis. The specific circumstances of the requirements imposed on PacifiCorp by the License, the size of the project, and the timing of its inclusion in a very recent GRC qualifies the Merwin Project as an "unusual case."

Accounting Treatment

Staff recommends that, beginning on the date of the application, PacifiCorp credit the appropriate expense and depreciation accounts, and debit the FERC account 182.3 for the operation and maintenance expense and depreciation expense associated with the Merwin Project. Staff recommends that the company not be allowed to accrue interest on the deferral balance.

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[6] *Utilities & Transportation. Commission v. PacifiCorp,* Docket No. UE-130043– Order 05 at ¶204 (December 14, 2013).
[7] Based on the amounts included in attachment F to the company's petition.
[8] *In the Matter of the Petition of Avista Corporation For an Accounting Order to Defer Costs Related to Improving Dissolved Oxygen Levels in Lake Spokane,* Docket No. UE-131576– Order 01 (September 26, 2013).
[9] *Utilities & Transportation. Commission v. Puget Sound Energy, Inc.,* Docket No. UE-060266 and UG-060267– Order 08 at ¶47 and footnote 33 (January 5, 2007).

Recommendation

Staff recommends the following:

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