ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 12, 2019

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **January 11, 2017**

DATE: March 4, 2019

TO: Public Utility Commission

FROM: Mitchell Moore MAM

THROUGH: Jason Eisdorfer and John Crider JC

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1817) Requests Authorization to Defer Expenses Associated with Storm Damage Restoration.

STAFF RECOMMENDATION:

Staff recommends that the Commission deny Portland General Electric's (PGE) request to defer costs associated with storm damage restoration for the 12-month period beginning January 11, 2017.

DISCUSSION:

Issue

Whether the Commission should allow PGE to defer for future recovery storm damage restoration costs in 2017.

Applicable Law

PGE makes this filing in accordance with 757.259 and OAR 860-027-0300. ORS 757.259 authorizes the Commission to allow a utility to defer, for later recovery in rates, expenses or revenues in order to minimize frequency of rate changes or to match appropriately the costs borne by and benefits received by customers. OAR 860-027-0300 sets forth several requirements for applications to defer.

Analysis

Background:
PGE filed this deferral request on January 11, 2017 in the midst of a severe winter storm that began in the evening on January 10, 2017. PGE's application states that it was experiencing extensive damage to its transmission and distribution network and loss of power to its customers. PGE expected that the costs would exceed normal restoration costs for typical winter weather. Total Level III storm costs incurred by PGE in 2017 were $11.4 million.

Commission Order 10-478 in the general rate case UE 215 allowed PGE to collect $2 million annually in rates to pay for service restoration following severe storms, categorized as Level III storms.[1] The annual amount for recovery was based on a rolling ten-year average of Level III storm costs, adjusted to reflect present value costs. Where amounts collected are not used in a given year, the funds are accrued and used to offset costs related to Level III storms in future years.

Commission Order No. 17-511 in the general rate case UE 319 increased the annual amount recovered in rates from $2 million to $2.6 million based on an updated rolling 10-year average of Level III storm costs from 2007-2016.

In its most recent general rate case UE 335, PGE proposed increasing the amount collected in rates to $3.8 million to reflect an update of the rolling 10-year average of costs. In addition, it requested the establishment of a balancing account to track revenues collected in rates and costs incurred during Level III storm events. PGE also requested the Commission approve this deferral in the GRC.

In Order No. 18-464, the Commission approved PGE's request to increase the amount collected in rates to $3.8 million, but denied the request for a balancing account. The Commission directed Staff to bring the deferral issue before the Commission within three months of the order.

Staff position:
In its testimony in UE 335, Staff recommended the Commission deny PGE's request to defer Level III storm costs in 2017. Staff reiterates that position here.

Deferred accounting under ORS 757.259 allows ratemaking on a retroactive basis. It allows utilities to recover in future rates costs that were incurred in the past. Normal

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[1] Level III storms are those that meet certain defined criteria, e.g. greater than 50,000 customers out of service; 3-4 regions experiencing outages; greater than 72 hours to restore service; need to call outside assistance.

ratemaking is prospective in that rates are determined based on a forecast of prudent and reasonable costs. Setting rates on a forward-looking basis incents the Company to control and manage costs. It also presumes, or attempts to replicate, a reasonable level of risk that any business would face in the normal course of operation.[2]

By setting rates based on past costs, deferred accounting essentially shifts all risk away from investors and onto ratepayers. As such, the Commission has determined that deferred accounting is appropriate in circumstances involving events that are not anticipated or predictable, and/or in circumstances in which the events have a substantial financial impact on the utility:[3]

> In exercising [discretion under ORS 757.259(2)(e)], we consider two interrelated factors: the type of event that caused the deferral; and the magnitude of the event's effect. These two considerations interact with each other so that neither is dispositive without the other. With regard to the type of event causing the deferral, we dr[a]w a distinction between risks that can be predicted to occur as part of the normal course of events, classified as stochastic risks, and risks that are not susceptible to prediction and quantification, classified as scenario risks. We concluded that risks that are reasonably predictable and quantifiable are generally not appropriate for deferral unless the second consideration, the magnitude of the financial impact of the event on the utility, is substantial enough to warrant deferral.[4]

Consistent with the Commission's previous decisions regarding deferred accounting, Staff recommends that PGE's application for deferred accounting for the 2017 Level III storm costs be denied.

As discussed above, PGE rates already include projections and provision for Level III storm costs. The Commission has set the amount collected in rates based on a 10-year rolling average, and has updated that amount as the 10-year average has increased due to higher storm costs in recent years. Accordingly, the financial impact in any given year must be "substantial" to warrant deferred accounting.
While the Commission has not set a precise numerical criteria in defining a threshold level of risk for deferrals, it has concluded that excess net variable power costs (NVPC)

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[2] See Order No. 04-108, p.9
[3] See Order No. 05-1070, Order No. 04-108, p. 9
[4] Order No. 05-1070, p. 3.

that were equal to or less than 250 basis points of the utility's return on equity was an amount that is reasonably absorbed by an electric utility between rate cases.[5]

Although the threshold for deferral of storm costs may not be as large as what is appropriate for deferral of NVPC, the 2017 storm costs represent an amount equal to approximately 47 basis points of PGE's authorized ROE. This is well below what the Commission has indicated represents reasonable risk for utilities between rate cases.

In addition, the actual 10-year average of Level III storm costs is modeled in the rates that are currently in effect. This 10-year average modeled in current rates includes the $11.4 million incurred in 2017 that is the subject of this deferral.

In summary, Staff recommends denial of the application because:

1) Actual 2017 storm costs are currently modeled in rates as part of a rolling 10-year average, as approved by the Commission in UE 335.
2) Storm costs incurred in 2017 represent 47 basis points of ROE, and thus are not substantial enough to warrant deferred accounting.
3) The Company should be expected to absorb some risk associated with the normal cost of doing business, as any unregulated, for-profit company would. It is not appropriate to expect ratepayers to bear the entire risk of weather-related events.

Proposed Accounting:
PGE proposes to account for the costs associated with this deferral as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and crediting FERC Account 407.4 (Regulatory Credits). If the Commission denies PGE's request for deferred accounting, the costs would likely be debited to FERC 593, Maintenance of Overhead Lines.

[5] See Order No. 04-108, p. 9: ("In UM 995, for instance, we established a deadband around PacifiCorp's baseline of 250 basis points of return on equity. We allowed no recovery of cots or refunds to customers within that deadband, reasoning that the band represented risks assumed, or rewards gained, in the course of the utility business.")

Estimated Deferrals in Authorization Period:
At the time of filing PGE estimated storm damage restoration costs from the storm in effect at the time of filing to be approximately $5 million. The total storm damage restoration costs in 2017 that are associated with this deferral were $11.4 million.

Information Related to Future Amortization:

- Earnings review – An earnings review is required prior to amortization, pursuant to ORS 757.259(5).

- Prudence Review – A prudence review is required prior to amortization and should include the verification of the accounting methodology used to determine the final amortization balance.

- Sharing – PGE proposes no sharing of costs with shareholders.

- Rate Spread/Design – This would be consistent with the prevailing rate spread/rate design in base rates at the time of amortization.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

Conclusion

Based on the Commission's reasoning in prior orders, and based on the principles underlying the prospective nature of traditional ratemaking, Staff concludes that the costs PGE incurred in 2017 for Level III storm costs are part of the risk that the Company can be expected to assume in the normal course of business, just as any for-profit company assumes a certain level of risk, and works to mitigate that risk. In addition, Level III storm costs for the previous 10-year average are currently modeled in rates, and have been updated over time as that 10-year average increases. Staff believes there is no justification in this request to shift the entire risk for larger-than-normal storm costs onto ratepayers.

Accordingly, Staff recommends the Commission deny PGE's request for deferred accounting.

PROPOSED COMMISSION MOTION:

Deny PGE's request to defer costs associated with storm damage restoration for the 12-month period beginning January 11, 2017.