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June 27, 2019

VIA ELECTRONIC FILING

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Re: Docket UM 1817 – In the Matter of Portland General Electric Company Application for the Deferral of Storm-Related Restoration Costs

Attention Filing Center:

Attached for filing in the above-referenced docket is a copy of Portland General Electric Company's Reply Brief.

Please contact this office with any questions.

Sincerely,

Katherine McDowell

Attachment

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

In the Matter of: PORTLAND GENERAL ELECTRIC COMPANY Application for the Deferral of Storm-Related Restoration Costs	**UM 1817**

REPLY BRIEF OF PORTLAND GENERAL ELECTRIC COMPANY

June 27, 2019

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I. INTRODUCTION

Portland General Electric Company (PGE) respectfully submits this reply brief to the Public Utility Commission of Oregon (Commission) addressing issues raised in opening briefs of Staff, Oregon Citizens' Utility Board (CUB), and Alliance of Western Energy Consumers (AWEC).

Under the principles established in docket UM 1147, the Commission should allow deferred accounting under ORS 757.259(2)(e) for the substantial costs PGE incurred responding to four major storms in 2017. As the Commission made clear when it approved a closely analogous deferral for PacifiCorp's storm restoration costs in Order No. 12-489 in docket UM 1634, major storms are precisely the sort of unforeseeable event for which deferred accounting is appropriate.[1] Staff and intervenors oppose PGE's deferral application, but they do not distinguish or even acknowledge Order No. 12-489; Staff also fails to explain why it advocates a completely different approach to PGE's 2017 storm deferral than to PacifiCorp's 2012 storm deferral. Ignoring Order No. 12-489, the parties instead rely on inapposite cases involving net power cost deferrals.

Staff and intervenors make a range of arguments in support of their position, some specific to PGE's 2017 storm deferral, and some arguing against deferrals more generally. None of these arguments overcome the key facts that: (1) major storms are unforeseeable; (2) without deferred accounting, PGE cannot recover its prudent storm restoration costs because of the asymmetry of PGE's storm accrual rate mechanism; and (3) PGE's use of deferred accounting has been limited, judicious, and generally uncontroversial. Nor do the arguments negate the important safety and reliability considerations supporting deferral of storm restoration costs, as highlighted by Staff in docket UM 1634. For all of these reasons, deferral of PGE's 2017 major storm restoration costs is warranted.

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[1] *In the Matter of PacifiCorp, dba Pacific Power's Request for Deferred Accounting Order for Network Damage from November 2012 Storm*, Docket UM 1634, Order No. 12-489, Appendix A, at 2 (Dec. 18, 2012).

II. ARGUMENT

A. Reply to Arguments Raised by Staff.

a. The Substantial Storm Costs in 2017 are Scenario Risks that Warrant Discretionary Deferral Under ORS 757.259(2)(e).

Staff argues that PGE's storm deferral should be denied because such costs constitute a stochastic risk. Without reconciling its change of position from docket UM 1634, Staff skips over the central issue of foreseeability. Instead, Staff promotes a novel interpretation in which the classification of an event as "scenario" or "stochastic" would turn simply on whether the general category of event (major storms) is somehow reflected in rates.[2]

The proper question under the principles established in docket UM 1147 is not whether a cost was reflected in rates in some fashion, but instead, whether that cost is "'reasonably predictable and quantifiable.'"[3] Major storm costs are not, and for this very reason, PGE did not model these costs in rates or otherwise attempt to generate a forecast.[4] Even if one treats the simple mathematical calculation of a ten-year rolling average as a modeling exercise, the focus should still be on the actual storm costs that occurred in 2017, not major storms generally.[5]

The substantial costs PGE incurred responding to four major storms in 2017, immediately on the heels of three consecutive prior years of significant storm costs, fall "outside of the foreseen range of risk" for storm response costs.[6] The range of risk in this context is necessarily bounded by the highest and lowest annual storm costs incurred over the most recent ten years comprising the rolling average. The storm costs in 2017 far exceed

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[2] Staff's Opening Brief at 6 (June 13, 2019).

[3] *In the Matter of Pub. Util. Comm'n of Or. Staff Request to Open an Investigation Related to Deferred Accounting*, Docket UM 1147, Order No. 05-1070, at 7 (Oct. 5, 2005) (quoting *In the Matter of Portland Gen. Elec. Co., Application for an Order Approving the Deferral of Hydro Replacement Power Costs*, Docket UM 1071, Order No. 04-108, at 9 (Mar. 2, 2004)).

[4] PGE/100, Nicholson – Bekkedahl/6. *Cf.* Staff's Opening Brief at 6.

[5] *In the Matter of Portland Gen. Elec. Co. Application for Deferred Accounting of Excess Power Costs Due to Plant Outage*, Docket UM 1234, Order No. 07-049, at 9 (Feb. 12, 2007).

[6] Order No. 07-049, at 9-10 (concluding an extended outage at Boardman fell outside the reasonable range of plant outages modeled in rates).

those bounds.[7] For these reasons, 2017 storm costs properly classify as a "scenario risk," much like the extended outage event that occurred at PGE's Boardman plant in docket UM 1234.[8]

Allowing deferral of PGE's unusually high storm costs is also appropriate given the asymmetry of the current storm accrual mechanism, which does not allow PGE to recover its prudently incurred costs of restoring power service and protecting public safety in extreme years like 2017, absent a deferral.[9] As the Commission has noted, "[f]or . . . scenario risks, there is no likelihood that a cost swing will be balanced out over time."[10] This is certainly the case under PGE's storm accrual mechanism, as the balance inevitably falls short – and occasionally, like in 2017, far short – of actual storm costs, with no ability to apply future accrual funds to make up for such years.[11]

In docket UM 1147, the Commission acknowledged that "treatment in ratemaking[]" is one of the factors to be taken into account in deciding whether a deferred account is appropriate.[12] In particular, the Commission explained that it "will consider whether there are other, more appropriate regulatory tools to address recovery of the identified costs or revenues."[13] There are currently no other regulatory tools available to PGE, apart from

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[7] *See* PGE/100, Nicholson – Bekkedahl/7-8. *Cf.* Order No. 04-108, at 10 (classifying hydro conditions as a stochastic risk and denying deferral in part because "the 2003 hydro year at issue here is within the range considered in normalizing hydro availability.").

[8] Order No. 07-049, at 10.

[9] PGE's Opening Brief at 11-12, 21-22 (June 13, 2019).

[10] Order No. 04-108, at 9.

[11] *In the Matter of Portland Gen. Elec. Co., Request for a General Rate Revision*, Docket UE 319, PGE/800, Nicholson – Bekkedahl/27-28; *In the Matter of Portland Gen. Elec. Co., Request for a General Rate Revision*, Docket UE 335, PGE/2100, Nicholson – Bekkedahl/10-11; Docket UE 335, PGE/2700, Nicholson – Bekkedahl/6-7; *see* PGE/100, Nicholson – Bekkedahl/15. By contrast, with a typical stochastic risk such as inputs to net variable power costs, actual costs in a given year may be higher or lower than were forecast in rates, but over time the highs and lows theoretically balance out, such that the utility has the opportunity to recover its costs over time. *See In the Matter of Portland Gen. Elec. Co., Application for Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions*, Docket UM 1623, Order No. 16-257, at 4 (July 7, 2016) (pension costs); Order No. 04-108, at 9 (hydro availability inputs to net power costs).

[12] Order No. 05-1070, at 7.

[13] *Id.* at 10.

deferral, to address recovery of prudently-incurred storm restoration costs in severely stormy years like 2017.

b. Allowing Deferral of PGE's 2017 Major Storm Restoration Costs Will Not Undermine the Distinction between Stochastic and Scenario Risks or Open the Door to Unlimited Deferrals.

Staff suggests that allowing deferral of PGE's 2017 major storm restoration costs will "essentially eliminate the possibility that any deferral request" will classify as a "stochastic risk."[14] Staff, much like CUB,[15] appears to be concerned with the precedent that could be established if the Commission allows deferral of these costs.[16] This concern is unfounded because, under the principles established in docket UM 1147, the Commission uses a fact-specific, contextual approach to evaluate whether a deferral is appropriate on a case-by-case basis. This necessarily limits the precedential nature of this deferral to only those cases, like docket UM 1634, involving similar costs and fact patterns.[17]

The unique facts at issue here easily fit the profile of a scenario risk, including the inherently unpredictable and extreme nature of Level III storms as a general matter, the number and severity of the particular storms that occurred in 2017, the context of three consecutive prior years of substantial storm restoration costs, and the asymmetrical accrual mechanism in rates. In fact, classifying the 2017 major storm restoration costs as a stochastic risk could have the opposite effect, as it is difficult to imagine what might constitute an unforeseeable event meriting deferral if not the extraordinary facts at issue here.

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[14] Staff's Opening Brief at 8.

[15] CUB's Opening Brief at 12 (June 13, 2019) (articulating a similar concern that allowing deferral here "would set a future precedent that would open the door for PGE and other utilities to seek deferral of all manner of unexpected costs, regardless of the magnitude of harm.").

[16] To the extent Staff is concerned the Commission may define stochastic risks out of existence by requiring a risk to be "capable of prediction with certainty" to classify as stochastic, PGE would like to clarify that it has never argued for such a narrow interpretation. Rather, PGE has consistently asserted, and continues to assert, that under the guidelines established in docket UM 1147, stochastic risks must be reasonably "susceptible to prediction and quantification," *i.e.*, foreseeable. Order No. 05-1070, at 3; PGE's Opening Brief at 9 & n.43, 15-18; PGE/200, Nicholson – Bekkedahl – Tooman/2-3. PGE's major storm restoration costs incurred in 2017 do not meet this definition, and for this reason, they are more appropriately classified as scenario risks.

[17] Order No. 05-1070, at 1. *See also id.* at 5.

Since the UM 1147 order, it appears the Commission has received only two deferral requests relating to storm restoration costs, inclusive of the current application. This is additional evidence of the unique circumstances at issue in a major storm cost deferral request. As Staff has previously observed, deferrals help make it possible for utilities to focus on immediate safety needs rather than cost management when a major storm strikes.[18] The elimination of the opportunity for PGE to recover its prudently-incurred storm response costs presents the real policy concern, not allowing the deferral as Staff and CUB allege.

B. Reply to Arguments Raised by CUB.

a. PGE's 2017 Storm Restoration Costs Are Not "Distributed Around" the Preceding Ten-Year Average.

CUB argues that PGE's 2017 storm restoration costs classify as a stochastic risk because the storm costs PGE has incurred over time are "merely a distribution around an average[,]" and "[a]ctual restoration costs will be distributed around this average[.]"[19] Thus, according to CUB, the 2017 storm restoration costs were "modeled and foreseen[,]" because the parties averaged ten previous years of data to calculate an annual accrual.[20] This is factually incorrect for a number of reasons.

First, a dataset of just ten recent years does not capture the historical upper bound of major storm cost risk, let alone a prospective upper bound, which is unknowable in the face of changing climate conditions. In addition, as explained by PGE's witnesses, zero-cost years pull the average down, such that the ten-year average looks nothing like, for example, median storm costs over the last ten years in those years when storms actually occurred.[21] This discrepancy is particularly significant given that the asymmetrical accrual mechanism does not permit PGE to carry forward negative balances, and PGE will therefore be unable to

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[18] Order No. 12-489, Appendix A, at 1-2.

[19] CUB's Opening Brief at 7-8. *See also* AWEC's Opening Brief at 9-10 (June 13, 2019) (making a similar argument).

[20] CUB's Opening Brief at 8.

[21] PGE/200, Nicholson – Bekkedahl – Tooman/15. *See also* PGE's Opening Brief at 11.

balance out 2017 costs in those years CUB predicted that "future storm costs will be below this average."[22]

As it turns out, and utterly unpredictably, the actual 2017 storm restoration costs were more than five times the average used to calculate the accrual and vastly exceeded the upper bounds of the limited snapshot-in-time dataset used to calculate that average.[23] If these anomalous 2017 costs are fairly characterized as a distribution around the average created by that dataset, then it appears that any magnitude of storm damage would also constitute a "distribution" around that average, no matter how extreme.

b. Financial Impact on the Utility is Not the Primary or Exclusive Factor in Discretionary Deferral Analysis.

CUB argues that in evaluating whether to exercise its discretion to authorize a deferral, the Commission's "most important consideration" should be the financial impact on the utility.[24] AWEC goes even further, asserting the Commission has "always" based its deferral decisions "exclusively on their overall financial impact, not on other factors," because "[t]he deferral standard is agnostic as to the cause of the cost."[25]

This is not the case, as evidenced by the Commission's decision in docket UM 1634 authorizing deferral of PacifiCorp's storm restoration costs before information was even available regarding the extent of those costs.[26] Neither the Commission nor Staff treated financial impact as the exclusive consideration, or even the most important consideration, in the context of deferring the costs of responding to a major storm in that proceeding.[27]

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[22] CUB's Opening Brief at 8.

[23] *See* PGE/100, Nicholson-Bekkedahl/6, 16.

[24] CUB's Opening Brief at 9.

[25] AWEC's Opening Brief at 12. *See also id.* ("'Whether the costs are to purchase power replacement or storm damage restoration is not particularly pertinent to the resolution of this question.'") (quoting Staff/100, Moore/11).

[26] Order No. 12-489, Appendix A, at 1.

[27] *See id.* at 1-3.

AWEC further stresses that the proper metric for evaluating the magnitude of a deferral is and "always has been" the effect on a "a utility's overall health[.]"[28] This is also belied by the Commission's decision in docket UM 1634. The Commission certainly did not evaluate the financial impact of those costs on the "utility's overall health," nor did Staff or AWEC's predecessor ICNU argue for such an approach in that proceeding. In addition, while AWEC alleges PGE's testimony failed to "discuss the magnitude of the requested deferral on PGE's overall finances[,]"[29] this is incorrect. PGE's witnesses explicitly stated that full recovery of 2017 storm restoration expenses would result in a 2017 regulated adjusted return on equity (ROE) of 8.26 percent, which would be 134 basis points below PGE's then-authorized rate.[30]

In support of its argument that financial impact should be the primary consideration, CUB incorrectly relies on a Commission decision denying PGE's application to defer pension costs.[31] In Order No. 16-257 in docket UM 1623, the Commission explained in dicta that FAS 87 expenses naturally balance out over time like other typical stochastic risks, and the costs at issue were within the bounds of that "natural variation" already accounted for in rates.[32] This order is readily distinguishable from PGE's 2017 storm deferral, both because the asymmetrical nature of the major storm accrual mechanism does not permit balancing over time without deferral and because the extraordinary 2017 storm costs were not within the "natural variation" accounted for in the ten-year average. In any case, Order No. 16-257 shows that the Commission does not rely primarily on financial magnitude. Rather, the Commission clearly evaluated the magnitude of the impact in relation to the nature of the underlying event.

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[28] AWEC's Opening Brief at 11-12. *See also* Staff's Opening Brief at 9 (asserting without citation that deferral magnitude "is determined by examining PGE's overall costs and revenues, not just test year expense for storm costs.").

[29] AWEC's Opening Brief at 11.

[30] PGE/100, Nicholson – Bekkedahl/14.

[31] *See* CUB's Opening Brief at 10 (citing Order No. 16-257, at 4). *See also* AWEC's Opening Brief at 4-5 (citing Order No. 16-257).

[32] *See* Order No. 16-257, at 3-4.

Elevating financial impact to the primary or exclusive factor in the discretionary deferral analysis is contrary to the principles established in docket UM 1147. In Order No. 05-1040, the Commission emphasized the importance of considering the nature of the event, not just the magnitude of effect, and explained that these are "interrelated factors[]" that "interact with each other so that *neither is dispositive without the other*."[33] CUB and AWEC would have the Commission disregard this guidance, effectively eliminating consideration of the nature of the event triggering the deferral application, and with it, the Commission's multi-factor approach to analyzing discretionary deferrals.[34]

c. Importing Deadbands from Net Power Costs Cases Would Undermine the Commission's Discretion to Utilize the Fact-Specific, Multi-Factor Approach Established in Docket UM 1147.

In support of their argument to focus on financial impact alone, CUB and the other parties rely on decisions by the Commission adopting deadbands for recovery of net power costs, arguing these decisions demonstrate that 2017 storm restoration costs are insufficient to warrant deferral.[35] As discussed in PGE's Opening Brief, net power costs are distinguishable from major storm costs.[36] While actual power costs in a given year may be higher or lower than were forecast in rates, the highs and the lows of net power costs theoretically have the opportunity to balance out.[37] That is not the case with PGE's major storm restoration costs under the asymmetrical accrual mechanism.

Importing deadbands from this entirely different context would run afoul of the Commission's directive for a fact-specific inquiry in which the nature of an event and its magnitude "interact with each other so that neither is dispositive without the other."[38] Imposing a one-size-fits-all mathematical threshold on storm response costs (by calculating

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[33] Order No. 05-1070, at 3 (emphasis added).

[34] *Id.* at 7 ("[T]he proper approach in analyzing an event is to examine the nature of the event, its impact on the utility, the treatment in ratemaking, and other factors used to evaluate whether a deferred account is appropriate. The next step is to examine the magnitude of the underlying event in terms of the potential harm.").

[35] CUB's Opening Brief at 9-10. *See also* Staff's Opening Brief at 9-10; AWEC's Opening Brief at 12.

[36] PGE's Opening Brief at 19-20.

[37] *See* Order No. 04-108, at 9 (hydro availability inputs to net power costs).

[38] Order No. 05-1070, at 3.

basis points from ROE), as CUB advocates,[39] would effectively narrow the deferral analysis to just one of the interrelated factors (magnitude), and to a ministerial computation, at best. In other words, such an approach would disregard the character of the event and the context in which it occurred, in the process significantly undermining, if not eliminating, the Commission's discretion to authorize individual deferrals that otherwise meet the statutory criteria in ORS 757.259(2)(e).[40]

d. PGE is Not Overusing Deferred Accounting to Shift Costs and Risks Embedded in its Revenue Requirement.

Both CUB and AWEC argue that PGE is overusing deferred accounting to shift risk from the Company to its customers.[41] This is not true. As explained by PGE's witnesses, all but two of PGE's current deferrals are Commission-approved deferrals of one-off costs to implement directives imposed by statute or Commission order.[42] Most of these deferrals pertain to atypical costs that are generally collected through supplemental schedules rather than in base prices.[43] Such costs do not involve any shifting of risk, and they are appropriately deferred because the Company does not rely on estimated forecasts, but rather defers only the actual costs it incurs to implement these programs.[44] In other words, the nature of such costs is appropriate for deferred accounting rather than inclusion in base rates.[45]

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[39] CUB's Opening Brief at 10. Notably, CUB's recommendation to the Commission to "set a threshold" of 100 basis points "to judge future Level III storm deferrals by" directly contradicts its encouragement in the preceding sentence for "the Commission to continue to employ 'the use of a flexible, fact-specific review approach that acknowledges the wide range of reasons why deferred accounting might be beneficial to customers and utilities.'" *Id.* (quoting Order No. 05-1070, at 1).

[40] *See* Order No. 05-1070, at 1, 7 (rejecting the more rigid, formulaic approach to evaluating deferral applications proposed by Staff and instead affirming continued use of the two-prong approach that "provides more flexibility for the Commission to exercise its discretion[,]" in recognition that this "flexible, fact-specific review approach [] acknowledges the wide range of reasons why deferred accounting might be beneficial to customers and utilities.").

[41] CUB's Opening Brief at 12-13; AWEC's Opening Brief at 15-16.

[42] PGE/100, Nicholson – Bekkedahl/12-13; PGE/200, Nicholson – Bekkedahl – Tooman/10-12.

[43] *See* PGE/200, Nicholson – Bekkedahl – Tooman/11.

[44] PGE/200, Nicholson – Bekkedahl – Tooman/12.

[45] PGE/200, Nicholson – Bekkedahl – Tooman/11-12.

AWEC implies that PGE has improperly assigned deferrals to this Commission-approved category in an effort to downplay the extent of the Company's reliance on deferrals to shift costs, but this is unfounded. AWEC apparently misconstrues the "Commission-approved" label as referring to cost categories that have been preapproved for deferred accounting by statute or Commission order, *i.e.*, authorized by law for deferral before PGE filed a deferral application. AWEC highlights two examples from PGE's list of Commission-approved deferrals, namely, the Company's pilot Demand Response Testbed and its community solar and electric vehicle program, observing there is no statutory or regulatory preapproval for deferring costs associated with either of these initiatives.[46]

AWEC misunderstands the origins and meaning of the "Commission-approved" category of deferrals. Staff developed this category in docket UM 1147 to distinguish stochastic and scenario events from those less-controversial instances where deferral is used as a tool to implement certain policies or programs established by the legislature or the Commission, as well as approved settlement agreements.[47] Neither Staff nor the other parties to that proceeding construed this category so narrowly, as AWEC would now, to just those policies and programs incorporating deferred accounting from the outset.[48] Therefore, PGE has properly classified all but two of its active deferrals in the "Commission-approved" category, including deferrals for the Demand Response Testbed pilot and the program for

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[46] AWEC's Opening Brief at 15 (asserting that "there is no statute or Commission order authorizing the deferral[]" for "costs associated with [PGE's] Demand Response Testbed, a pilot authorized in the Company's 2016 Integrated Resource Plan[.]"); *id.* (observing that "the relevant statute" for community solar and electric vehicle program costs "says nothing about allowing deferrals.").

[47] Docket UM 1147, Staff's Opening Comments, at 2-3 (Oct. 7, 2004).

[48] *See, e.g.*, Docket UM 1147, Citizens' Utility Board of Oregon's Reply Comments, at 3 (Feb. 18, 2005) ("Staff's category did not confuse us. Staff's intent for Commission-Approved was to encompass those events that stem from government and/or Commission actions. The government or Commission action would come first, then the deferral application."). *See also* Docket UM 1147, Portland General Electric Company's Opening Comments, at 8-10 (Jan. 18, 2005) (identifying three types of deferrals that ultimately fit the "Commission-approved" label assigned by Staff, namely, "deferrals that support tariffs or other ratemaking mechanisms[,] . . . deferrals that permit a utility to recover its costs in order to encourage conduct that is authorized by statute or which is consistent with Commission policy[,] and [] deferrals that facilitate the resolution of a rate case item that is hard to forecast.").

community solar and electric vehicles.[49] In addition, categorizing deferrals as "Commission-approved" does not provide the Company a carte blanche for deferring costs, nor does it guarantee recovery of those costs. Amortization of an authorized deferral is subject to an earnings test (unless the deferral is subject to an automatic adjustment clause), a prudence review, and a three percent test.[50]

CUB also argues that PGE has asymmetrical information regarding those costs and benefits potentially eligible for deferral and must therefore be abstaining from filing deferrals in situations where customers would benefit.[51] PGE's witnesses explained, however, that such an imbalance in deferrals would invariably result in the Company over-earning its actual ROE, compared to its authorized ROE, on a regular basis.[52] In fact, PGE's annual Results of Operations Reports show PGE has underearned its ROE in 23 of the past 32 years.[53]

C. Reply to Arguments Raised by AWEC.

a. Deferral of 2017 Major Storm Restoration Costs Satisfies the Statutory Criteria in ORS 757.259(2)(e), because Deferred Accounting Will Appropriately Match Costs with Customer Benefits.

AWEC argues that PGE's application to defer 2017 major storm restoration costs does not meet the statutory criteria in ORS 757.259(2)(e).[54] A deferral is permissible under this provision if it will either: (1) "minimize the frequency or fluctuations of rate changes[,]" or (2) "match the costs and benefits received by ratepayers."[55] Customers received the benefits of PGE's significant storm restoration efforts in 2017, and PGE's witnesses explained why deferral would allow the matching of costs PGE expended to provide those benefits.[56]

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[49] PGE/100, Nicholson – Bekkedahl/12-13; PGE/200, Nicholson – Bekkedahl – Tooman/10, 12.
[50] ORS 757.259(5), (6).
[51] CUB's Opening Brief at 12-13.
[52] PGE/200, Nicholson – Bekkedahl – Tooman/12.
[53] PGE/200, Nicholson – Bekkedahl – Tooman/12-13
[54] AWEC's Opening Brief at 7-9.
[55] Order No. 05-1070, at 5.
[56] PGE/100, Nicholson – Bekkedahl/2; PGE/200, Nicholson – Bekkedahl – Tooman/8-9.

Staff similarly acknowledges "the circumstances satisfy the [statutory] criteria" here because "[d]eferring expense for later recovery would match costs with ratepayer benefits[.]"[57] This is consistent with the position Staff took in docket UM 1634 addressing PacifiCorp's 2012 storm deferral. In that matter, Staff observed the deferral request sought "to align the costs of [the utility]'s network service with the benefits customers receive from such service[]" and concluded the matching requirement was satisfied.[58] Notably, AWEC's predecessor ICNU intervened and also did not oppose PacifiCorp's application, let alone argue that deferring storm restoration costs would not appropriately match customer costs and benefits. Further, by adopting Staff's recommendation to grant the deferral in docket UM 1634, the Commission endorsed the position that a storm deferral allows matching of costs and benefits.

In this proceeding, by contrast, AWEC's witness initially challenged whether the matching requirement is satisfied on the grounds that the customers who actually received the storm response benefit may not be the same customers who would pay for deferred costs, in part due to the passage of time.[59] AWEC has since abandoned this argument in briefing,[60] however, and appropriately so, given clear Commission precedent rejecting such a narrow construction of matching customer costs and benefits that would effectively prohibit *any* deferrals.[61]

Instead, the gist of AWEC's argument now is that deferring 2017 storm response costs would not match customer costs and benefits because such a deferral would "single[] out a year in which costs exceeded the accrual" without "recogniz[ing] years in which the accrual has exceeded Level III storm costs."[62] This reflects a continued misunderstanding on

[57] Staff's Opening Brief at 6.
[58] Order No. 12-489, Appendix A, at 2.
[59] AWEC/100, Hellman/15-16.
[60] *See* AWEC's Opening Brief at 7-9.
[61] *See, e.g.*, *In the Matters of Pacific Power & Light Co., dba Pacific Power, Portland Gen. Elec. Co., and Idaho Power Co.*, Dockets UM 1256, UM 1257, & UM 1259, Order No. 06-483, at 5 (Aug. 22, 2006) (rejecting a similar argument for matching "benefit over time" by AWEC's predecessor, ICNU).
[62] AWEC's Opening Brief at 8-9.

AWEC's part regarding how the accrual mechanism functions. The highs and lows of major storm response costs do not and cannot balance out over time. As explained in PGE's Opening Brief, the accrual operates like a one-way savings account for customers. In low-cost years the balance can grow to help fund higher storm costs in future (and those funds can only be used for that purpose). In high-cost years like 2016 and 2017, however, the Company must absorb excess costs because it is unable to carry forward a negative balance to offset those costs in future.[63] The result is that costs do not balance out *unless* a deferral is authorized.[64] This is one of the reasons why 2017 storm response costs are distinguishable from typical "stochastic" risks such as hydro availability, which can theoretically balance out over time.[65]

Therefore, much like in docket UM 1634, deferring costs from an extreme year like 2017 would satisfy the matching requirement in ORS 757.259(2)(e) by appropriately "align[ing] the costs of [PGE]'s network service with the benefits customers receive from such service."[66]

b. Commission Precedent Does Not Support the Conclusion that Weather-Related Risk Should be Classified as a Stochastic Risk.

AWEC argues that since the Commission has "found that hydro variability is a type of stochastic risk," this amounts to precedent that other "weather-related risk" like storm restoration costs should be classified as stochastic risk as well.[67] This argument is unfounded for two reasons.

First, for this proposition AWEC cites to docket UM 1071, which addressed hydro availability inputs to net power costs.[68] Labeling hydro variability as a "weather-related risk"

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[63] PGE's Opening Brief at 11-12, 21-22.

[64] *Id.* at 11-12, 21.

[65] *See* Order No. 04-108, at 9 (observing that "[h]ydro variability[] . . . causes costs to swing above and below the average included in rates, so the effect should average out.").

[66] Order No. 12-489, Appendix A, at 2.

[67] AWEC's Opening Brief at 10.

[68] AWEC's Opening Brief at 10 n.46 (citing Order No. 04-108, at 9, and Docket UM 1071, Order No. 04-357, at 9-10 (June 25, 2004)).

is a stretch, given that hydro conditions are only indirectly affected by weather, at best, in the sense that weather can affect river flows. Ultimately, however, a multitude of factors affect the amount of water that can be passed through hydroelectric generators, not just river flow. Furthermore, the dispositive factor in docket UM 1071 was not weather variability, but the fact that while hydro availability can swing above and below the forecast in rates, it balances out over time.[69] One of the reasons 2017 major storm restoration costs are distinguishable from net power cost inputs like hydro availability is because the asymmetrical nature of the accrual mechanism does not allow major storm costs to average over time in the same manner as actual hydro availability averages in relation to forecast hydro availability.[70]

Second, and more importantly, AWEC disregards the far more pertinent precedent for treatment of "similar, weather-related risk" in docket UM 1634.[71] In the supporting Staff Report relied on by the Commission, Staff did not quibble with nomenclature regarding stochastic versus scenario risks.[72] Instead, Staff observed that major storms are precisely the sort of "unanticipated event[]" deferred accounting is designed to cover.[73]

III. CONCLUSION

Major storms are inherently unpredictable, both in terms of when storms will occur and how substantial the impacts will be. The unusually severe year in 2017 is precisely the kind of unforeseeable event that warrants exercise of the Commission's discretion to grant a deferral under ORS 757.259(2)(e) and the principles established in docket UM 1147. Allowing deferral of PGE's 2017 storm restoration costs is consistent with directly applicable Commission precedent in docket UM 1634, and it is supported by sound policy rationale. The opportunity for deferral allows a utility to focus on customer needs and public safety

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[69] *See* Order No. 04-108, at 9.

[70] *See* PGE's Opening Brief at 11-12, 21-22. *Cf.* Order No. 04-108, at 9.

[71] Order No. 12-489.

[72] *See* Order No. 12-489, Appendix A.

[73] *Id.* at 2.

first and foremost, rather than worrying about cost management in the midst of a major storm.

Respectfully submitted this 27th day of June 2019.

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