

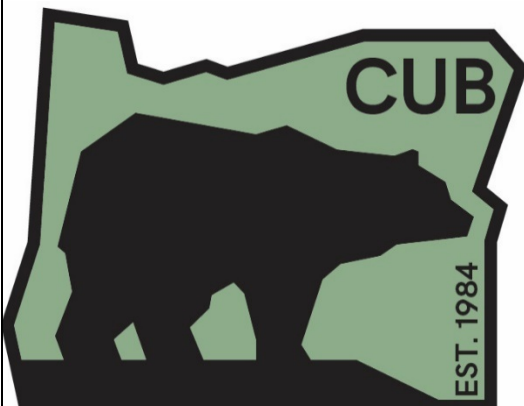
**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UM 1817**

In the Matter of )  
 )  
PORTLAND GENERAL ELECTRIC )  
COMPANY, )  
 )  
Application for the Deferral of Storm-Related )  
Restoration Costs. )  
\_\_\_\_\_ )

REPLY TESTIMONY  
OF THE  
OREGON CITIZENS' UTILITY BOARD

April 24, 2019



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Application for the Deferral of Storm-Related	)	
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1 **Q. Please state your name, occupation, and business address.**

2 A. My name is William Gehrke. I am an Economist employed by the Oregon Citizens'  
3 Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400  
4 Portland, Oregon 97205.

5 **Q. Please describe your educational background and work experience.**

6 A. My witness qualification statement is attached as exhibit CUB/101.

7 **Q. What is the background for this docket?**

8 A. Prior to 2010, Portland General Electric (PGE or the Company) was able to obtain  
9 insurance for Level III storms. PGE defines Level III storms as those resulting in  
10 an outage that is expected to impact at least 50,000 customers, or across three to  
11 four of their regions, or resulting in several substations and feeders being out of  
12 service.<sup>1</sup> In PGE's 2010 rate case—docket UE 215—PGE proposed a balancing  
13 account for Level III storm cost recovery.<sup>2</sup> In opposition, Staff of the Public Utility

<sup>1</sup> UE 215 – PGE/800/Hawke – Nicholson/12.

<sup>2</sup> UE 215 – PGE/800/Hawke – Nicholson/12/Lines 14-15.

1 Commission of Oregon (Staff) recommended a reserve account that utilized the  
2 rolling ten-year average adjusted to reflect present value as a method for  
3 forecasting Level III storm costs.<sup>3</sup> Eventually, instead of a balancing account,  
4 parties agreed to implement Staff's proposal which allowed the Company to save  
5 unused money collected for Level III storms in subsequent years.<sup>4</sup> When the Level  
6 III storm accounting mechanism was established in UE 215, Staff noted that the  
7 Company has the option of requesting deferred accounting to track costs that  
8 substantially exceed the amount included in rates.<sup>5</sup> In 2017, several years of  
9 successive Level III storms depleted PGE's storm reserve account. In response to a  
10 severe storm that began on January 10, 2017, the Company filed this deferral on  
11 January 11, 2017 to track the costs related to that event.

12 **Q. What does the Company request in UM 1817?**

13 **A.** The Company requests authorization to defer approximately \$8.0 million due to  
14 Level III storm costs in 2017.

15 **Q. What is the purpose of your testimony?**

16 **A.** In my testimony, I respond to the Company's opening testimony regarding this  
17 deferral. Due to the magnitude of the deferral (approximately \$8.0 million), CUB  
18 requests that the Commission reject PGE's request to defer excess costs associated  
19 with 2017 Level III storm restoration. The magnitude of the 2017 Level III storm  
20 costs is not substantial enough to warrant the Commission to authorize this deferral.

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<sup>3</sup> UE 215 - Staff/400/Ball/6/Lines 6-8.

<sup>4</sup> UE 215 - Second Revenue Requirement Stipulation, Page 5.

<sup>5</sup> UE 215 - Staff/400/Ball/6/Lines 15-17.

1 **Risk of the Deferral**

2 **Q. How does Staff characterize risk associated with 2017 Level III storms?**

3 **A.** Staff views this risk as a stochastic risk. Staff believes that the costs in 2017 are  
4 part of the risk that the Company can be expected to assume in the normal course  
5 of business. Importantly, under the Commission’s discretion to authorize deferrals,  
6 it draws “a distinction between risks that can be predicted to occur as part of the  
7 normal course of events, classified as stochastic risks, and risks that are not  
8 susceptible to prediction and quantification, classified as scenario risks.”<sup>6</sup>

9 Stochastic risks are generally not appropriate for deferral unless the magnitude of  
10 the financial impact on the utility is substantial enough to warrant a deferral.<sup>7</sup>

11 **Q. How does PGE characterize the risk of 2017 Level III storm costs?**

12 **A.** The Company views this as a scenario risk.<sup>8</sup> Therefore, the Company believes that  
13 these costs were not foreseeable as happening in the normal course of events.

14 **Q. Were PGE’s shareholders aware of storm risk when investing in the**  
15 **Company?**

16 Yes. In the Company’s 2016 annual report to its investors, it presented the  
17 following risk:

18 **Storms and other natural disasters could damage the Company’s**  
19 **facilities and disrupt delivery of electricity resulting in significant property**  
20 **loss, repair costs, and reduced customer satisfaction.**

21 PGE has exposure to natural disasters that can cause significant damage to  
22 its generation, transmission, and distribution facilities. Such events can interrupt the  
23 delivery of electricity, increase repair and service restoration expenses, and reduce

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<sup>6</sup> OPUC Order No. 05-1070 at 3.

<sup>7</sup> *Id.*

<sup>8</sup> UM 1817 - PGE/100/Nicholson - Bekkedahl/8/Lines 9-10.

1 revenues.<sup>9</sup>

2  
3 Prior to the 2017 Level III storms, the Company's 2016 annual report clearly  
4 presented this storm risk to its investors. Investors in PGE were presented with  
5 risks associated with storm damage. This indicates this risk is part of the normal  
6 course of events anticipated by the Company. Such an indication suggests that  
7 storm risk is a stochastic risk for the purpose of considering deferred accounting  
8 applications.

### 9 **Magnitude of the Deferral**

#### 10 **Q. What is the magnitude of this deferral?**

11 **A.** The magnitude of this deferral is \$8.0 million. This is 36 basis points of PGE's  
12 2017 regulated adjusted Return on Equity (ROE). The magnitude of this deferral is  
13 not significant enough to justify Commission approval. For this deferral, CUB asks  
14 the Commission to look at total financial impact on the utility rather than the  
15 magnitude of specific Level III storm costs. 36 basis points on the Company's  
16 ROE is not significant to warrant approving a deferral application that examines a  
17 stochastic risk.

#### 18 **Q. How does the Company characterize the magnitude of the deferral?**

19 **A.** The Company has stated that this is an extraordinary cost.

#### 20 **Q. Is an "extraordinary cost" the same as "magnitude of the deferral"?**

21 **A.** No. The total magnitude of this deferral is 36 basis points. This is not a significant  
22 magnitude on the utility.

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<sup>9</sup> Portland General Electric 2016 Annual Report at Page 30. This annual report was presented to investors prior to the 2017 storm season.

1 **Q. Would the Company be significantly impacted by not fully recovering its**  
2 **Level III storm costs in 2017?**

3 **A.** No. Since 2009, the Company has been able to constantly increase its dividend to  
4 its investors. The compound annual growth rate of PGE’s dividend from 2014 to  
5 2018 is 6.5%.<sup>10</sup> If the Company was to deny this deferral, its investors would not  
6 be substantially impacted.

7 **Q. Does CUB believe that deferrals are appropriate in discrete, limited**  
8 **circumstances?**

9 **A.** Yes. The only exception to the framework detailed in Order No. 05-1070 is  
10 deferrals based on Commission orders and/or statutory requirements. CUB  
11 believes that deferrals should only be used in discrete, limited circumstances  
12 because deferrals are inherently biased towards utilities, and are an “exceptional  
13 form of ratemaking” that “should be used sparingly.”<sup>11</sup>

14 **Q. How are deferrals biased toward the utilities?**

15 **A.** There is an information asymmetry with regards to deferrals. PGE has more access  
16 to information when proposing and defending a deferral application. Intervenors  
17 and Staff have a limited window into the Company’s operations—during a general  
18 rate case. Due in part to the information asymmetry, deferrals should be used  
19 sparingly. An example of this asymmetry is this docket; the day before the storm  
20 hit its service territory, the Company was able to timely file a deferral.

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<sup>10</sup> Investor Presentation of Portland General Electric, March 2019, Page 15.

<sup>11</sup> See UM 1817 Comments of AWEC and CUB at 3.

1 **Cost Recovery**

2 **Q. How does PGE characterize this deferral with regards to cost recovery?**

3 **A.** According to PGE, without this deferral, its customers would have received  
4 service at a cost less than the Company incurred to provide it.<sup>12</sup>

5 **Q. What is your response to this argument?**

6 **A.** Over or under recovery of a single expense is irrelevant in ratemaking. CUB  
7 believes that deferred accounting should be used sparingly, due the asymmetry of  
8 information between the utility and other parties. The goal of rates is to provide the  
9 Company will the opportunity to earn its rate of return; If costs are greater than the  
10 rate established in a general rate case and cost is not significant, the Company's  
11 investors should bear the costs associated with storm restoration.

12 **Q. What do you recommend if the Commission chooses to approve this**  
13 **deferral?**

14 **A.** CUB believes the magnitude of harm is not substantial enough to warrant a  
15 deferral. If the Commission accepts the deferral for unique reasons such as the  
16 status of storm reserve account, CUB asks the Commission to clarify if it is  
17 establishing a magnitude for Level III storm costs or if the approval is due to other  
18 factors.

19 If the Commission were to approve this deferral with such a low magnitude, a  
20 precedent could be established for other electric utilities regarding the magnitude of

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<sup>12</sup> UM 1817 – PGE/100/Nicholson - Bekkedahl/2/Lines 15-16.

1 Level III storm deferrals. In the past, PacifiCorp has requested a deferral for storm  
2 damage.<sup>13</sup> CUB believes that such a precedent could be dangerous, as granting a  
3 deferral whose magnitude is far less (36 basis points) than a normal deferral would  
4 be outside the scope of Commission delineated deferral guidelines.

5 **Q. What is an appropriate threshold for Level III storm costs?**

6 **A.** If the Commission believes that high Level III storm cost years are a scenario risk,  
7 CUB believes that a 100-basis points threshold is appropriate for future Level III  
8 storm cost deferral. The 100-basis point threshold represents a substantial impact  
9 on the utility. In UE 335, CUB stated that the Company can file a deferral in high  
10 storm costs years.<sup>14</sup> 100-basis points, to CUB, represents high storm cost years.

11 **Q. Does this conclude your testimony?**

12 **A.** Yes

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<sup>13</sup> See *In the Matter of PACIFICORP, dba PACIFIC POWER's*, OPUC Docket No. UM 1634, Request for Deferred Accounting Order for Network Damage from November 2012 Storm.

<sup>14</sup> UE 335 - CUB/Jenks-Gehrke /27/Lines 1-3.



**WITNESS QUALIFICATION STATEMENT**

**NAME:** William Gehrke

**EMPLOYER:** Oregon Citizens' Utility Board

**TITLE:** Economist

**ADDRESS:** 610 SW Broadway, Suite 400  
Portland, OR 97205

**EDUCATION:** MS, Applied Economics  
Florida State University, Tallahassee, FL

BS, Economics  
Florida State University, Tallahassee, FL

**EXPERIENCE:** Provided testimony or comments in several Oregon Commission dockets. Worked as an Economist for the Florida Department of Revenue. Worked as Utility Analyst at the Florida Public Service Commission, providing advice on rate cases and load forecasting. Attended the Institute of Public Utilities Annual Regulatory Studies program in 2018.