

PUBLIC UTILITY COMMISSION OF OREGON
CONFIDENTIAL STAFF REPORT
PUBLIC MEETING DATE: March 8, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2016

DATE: February 29, 2016

TO: Public Utility Commission

FROM: Judy Johnson *JJ* and Matt Muldoon *mm*

THROUGH: Jason Eisdorfer *J* and Marc Hellman *MH*

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1756) Requests Authorization to Defer Revenue Requirement Associated with 2016 Debt Issuance.

STAFF RECOMMENDATION:

I recommend the Commission approve Portland General Electric's (PGE or Company) request for authorization to defer revenue requirement associated with 2016 debt issuance for the 12-month period beginning January 1, 2016.

ISSUE:

PGE requests authorization to defer revenue requirement associated with 2016 debt issuance.

APPLICABLE LAW:

PGE asks to defer benefits under ORS 757.259(2)(e). Under ORS 757.259(2)(e), PGE must establish that granting the deferral will minimize the frequency of rate changes or match appropriately the costs borne by and benefits received by ratepayers. PGE's application must also provide information required by OAR 860-027-0300, such as the estimated amount of deferral, an explanation of the reason for deferral, etc.

DISCUSSION AND ANALYSIS:

Background

PGE's most recent general rate case (UE 294, test year 2016) and subsequent compliance filing (Advice No. 15-33), included revenue requirement based on the expected end of the year (2015) cost of debt of 5.419 percent. The end of year 2015

cost of debt was used because in the fall of 2015, PGE decided to not issue any long-term debt in 2015 to allow the financial market to stabilize.

In PGE's last general rate case Staff's debt maturity profile showed a maturity concentration of approximately \$430 million through 2019. On January 6, 2016, PGE issued \$140 million of new 2.51 percent five-year First Mortgage Bonds (FMB) due January 6, 2021. With the proceeds thereof, PGE retired a \$75 million 5.80 percent debt series due March 1, 2018, and a \$58 million 3.81 percent debt series due June 15, 2017. The redemption premium associated with the two series was \$8,536,430 and is being amortized over the life of the new 2.51 percent series. With this issuance and retirement, the maturity concentration was reduced. Staff views the early retirements at this time as prudent.

The above actions effectively lowered PGE's Cost of Long-Term (LT) Debt from the 5.419 percent level associated with Commission Order No. 15-356 in Docket No. UE 294 to a referent level of 5.350 percent. Applying the changes associated with this issuance and retirement of LT Debt to the rate case model and relying on PGE's initial Report of Securities issued under Order No. 14-399, the Company and Staff found a \$1.403 million test year annual revenue impact benefit to ratepayers. Final issuance accounting and modeling amounts could vary, but Staff and the Company do not expect material changes to the above described calculations. Please see confidential Attachment A for more details.

Reason for Deferral

The deferred amount will be the difference in revenue requirement between: 1) the actual cost of total long-term debt due to the issuance of the new debt, and 2) the cost of the debt included in the 2016 general rate case stipulation. PGE states that granting this application will eliminate any conflict with ORS 757.355(1), minimize the frequency of rate changes, and match appropriately the costs borne, and benefits received by customers.

Proposed Accounting

The Company proposes to record the deferred amounts as a regulatory liability in FERC Account 229, Accumulated Provision for Rate Refunds, with a debit to Account 449.1, Provision for Rate Refunds.

Estimated Deferrals in Authorization Period

PGE anticipates a decrease in annual revenue requirement and the amount subject to deferral will be approximately \$1.4 million.

Information Related to Future Amortization

- Earnings Review – PGE asserts that in order to preclude any potential conflicts with ORS 757.355(1), there should be no earnings review prior to amortization.
- Prudence Review – PGE will submit compliance reports that include analysis of market conditions at the time of issuance and actual cost summaries, per the conditions of Order No. 14-399. Staff may audit the deferral at any time.
- Sharing – PGE asserts that after a prudence review of PGE's issuance costs, 100 percent of the deferred benefits should be subject to utility refund.
- Rate Spread/Design – PGE proposes the same rate spread/rate design agreed upon during the UE 294 rate case proceeding.
- Three Percent Test (ORS 757.259(6)) – The Company proposes that the amortization of the deferred revenue requirement be subject to the three percent test.

Staff Analysis

The Company's application meets the requirements of ORS 757.259(2)(e) because it appropriately matches costs and benefits as it effectuates the terms of the Second Partial Stipulation the Commission approved in Order No. 15-356. The Company has provided the information required by OAR 860-027-0300. Staff recommends the Commission approve PGE's application to defer.

Staff does not take a position at this time on how ORS 757.355 may affect the Commission's decision regarding amortization. PGE asserts that the Commission should not perform an earnings review prior to authorizing amortization of the deferred amounts to avoid a conflict with ORS 757.355(1). ORS 757.355(1) provides that a "public utility may not, directly or indirectly, by any device, charge, demand, collect or receive from any customer rates that include the costs of construction, building, installation or real or personal property not presently used for providing utility service to the customer."

Staff does not take a position on whether it is a violation of ORS 757.355(1) if the LT Cost of Debt assumed in a utility's rates differs from the utility's actual LT Cost of Debt.¹ However, under ORS 757.259(5), the Commission must review a utility's earnings before allowing a utility to amortize a deferral granted under ORS 757.259(2)(e). While

¹ Industrial Customers of Northwest Utilities states that it does not think the statute applies to the amounts deferred under this memo.

the Commission is statutorily required to do the review, the Commission has discretion to determine what impact an earnings review will have on its amortization decision.

With respect to application of the three percent limit on amortization, Staff and the Company have talked about the practical application of the three percent for a refund. We agree that the three percent test actually has no effect on a refund to customers.

PROPOSED COMMISSION MOTION:

Approve Portland General Electric's request for authorization to defer revenue requirement associated with 2016 debt issuance for the 12-month period beginning January 1, 2016.