

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 17, 2015

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: November 9, 2015

TO: Public Utility Commission

FROM: Max St. Brown^{MSB}

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

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 310) Requests approval of the sale of Poles and Circuit to the City of Portland.

STAFF RECOMMENDATION:

The Public Utility Commission (Commission) should approve Portland General Electric's (PGE or Company) sale of 4,256 lighting poles and 122,022 feet of associated circuit to the City of Portland (COP or City).

ISSUE:

The COP has elected to maintain and own the lights used for street lighting. PGE requests approval to sell to the COP the street light only (SLO) poles and associated circuit (Circuit) used for the City-owned luminaires that the City will maintain. Staff has reviewed the application to determine whether it meets the criteria in ORS 757.480, including the no harm standard that the Commission applies to property sales.

APPLICABLE LAW:

Under ORS 757.480, a utility must obtain Commission approval before selling property used for utility service valued over \$100,000. The Commission applies a "no harm" standard to requests to sell property.¹ OAR 860-027-0025 requires that the utilities provide certain information with an application filed under ORS 757.480, including a description of the property and the purpose of the sale.

¹ See e.g., Order No. 05-966 (Noting the Commission applied the no harm standard when considering PGE's request for approval to sell property); 01-778 (Noting the Commission applies the no harm standard to requests filed under ORS 757.480).

ANALYSIS:

COP currently owns luminaires that receive electric and maintenance service from PGE under Schedule 91 of PGE's tariff. Many of these luminaires are classified as Option B luminaires, which are luminaires owned by COP but maintained by PGE. Pursuant to the Company's tariff, COP may elect to convert their Option B luminaires receiving standard service under Schedule 91, to new technology luminaires (i.e., LED lights) under Schedule 95 Option C (i.e. City-owned and maintained light fixtures). However, the tariff specifies that such a conversion must include the entirety of COP's Schedule 91 Option B luminaires.² The Schedule 95 tariff for new technology such as energy-efficient LED lights, does not allow for Option B luminaires (those owned by the City but maintained by the Company).

In November 2012, COP notified PGE of its interest in converting its existing Option B luminaires from high intensity discharge lights under Schedule 91 to the more energy-efficient LED lights under Schedule 95. COP's decision to undertake this conversion led to negotiations with COP over the sale of PGE-owned SLO poles because Schedule 95 luminaires must be on non-Company owned SLO poles or Company-owned distribution poles.³ Under Schedule 95 Option C or Schedule 91 Option C, COP assumes full responsibility for maintaining all the luminaires and the city-owned poles.

PGE originally filed this application on August 19, 2014, asking for approval of its proposed sale of 3,661 SLO poles and 154,755 feet of Circuit located in the city of Portland. After numerous discussions with Staff, PGE filed a supplemental application on November 3, 2015 for approval of the sale of 4,256 SLO poles and 122,022 feet of Circuit. Compared to the original filing, the supplemental filing uses a different method to determine the sales price, includes additional SLO poles that PGE had originally intended to transfer to COP through a second sale, and adjusts the feet of Circuit to reflect the final mapping assets included in the sale. The new total of SLO Poles and

² From PGE's Schedule 95 tariff, effective March 25, 2015: "If Customer elects to convert any of its luminaires from Schedule 91 Option B to Schedule 95 Option C, the Customer must at the same time commit to convert the entirety of Customer's Schedule 91 Option B luminaires to Schedules 91 Option C and Schedule 95 Option C using one of two methods: (A) within five years following PGE's group lamp replacement cycle or (B) within three years on a schedule mutually agreed upon between the Company and Customer. Customer may elect to have some of its luminaires on Schedule 91 Option C and some on Schedule 95 Option C."

³ From PGE's Schedule 95 tariff, effective March 25, 2015: "Option C provides electricity service to luminaires that are purchased, owned and maintained by the Customer and installed on non-Company owned poles or Company-owned distribution poles." This passage was modified by the company with approval from the Commission in Advice No. 15-05 to help facilitate the sale of equipment to non-customer entities. Specifically, the phrase "non-Company owned" replaced "customer-owned" so that Luminaires supported by poles owned by third parties could receive Option C electricity service.

Circuit includes all Poles and Circuit that COP is required to purchase from PGE in order to comply with the provisions contained within PGE's Schedule 95 tariff.

The proposed purchase price of the 4,256 SLO poles and 122,022 feet of circuit (together "the Equipment") is \$1,470,867.

Issues

Staff investigated the following issues:⁴

1. Scope and Terms of the Asset Purchase Agreement
2. Allocation of Gain or Loss
3. Records Availability, Audit Provisions, and Reporting Requirements
4. Public Interest Compliance

Scope and Terms of the Purchase Agreement

PGE and COP signed a purchase agreement (Agreement) outlining the terms of the proposed sale. The Agreement specifies the Equipment is to be "sold as is" and "where is," with no warranty of any kind. Also, both COP and PGE have the right to terminate the Agreement if the transaction is not finalized (Closed) by December 1, 2015. At Closing, COP will assume risk for any loss or damage to the Equipment.

The proposed sales price is based on an adjusted estimate of the Equipment's net book value.

To estimate the net book value of the Poles, the Company first approximated the current cost (2014 dollars) of installing the poles in the proposed sale in accordance with 2014 National Electric Safety Code (NESC) standards. The 2014 installation cost was then deflated back into the nominal dollars based on the year the plant was actually placed into service.⁵ Next, the nominal pole values were depreciated for the length of time the plant has been in service. The Company then further adjusted the net book value estimate downward by \$98,900 to account for parts missing from some poles that are necessary to meet 2014 NESC standards. After this adjustment, the final estimated net book value of the Poles was \$946,684.

For the Circuit, PGE estimated the net book value by multiplying the total number of circuit feet associated with the poles by the average net plant price per foot for PGE's

⁴ Staff's review of the proposed sale included informal phone conversations, three teleconferences, two in person meetings with PGE and COP, and numerous formal data requests submitted to the Company.

⁵ Inflation adjustment carried out using the Handy-Whitman Index.

total system Streetlight wire. The final estimated net book value of the Circuit was \$50,634.

The proposed sales price of \$1,470,867 equals estimated net book of the Equipment (\$1,096,218), a year of net retail revenues PGE would receive if the sale does not take place (\$438,695), plus the net present value of five years of attachment revenue generated by the 277 poles proposed for sale that support third-party attachments (\$34,854), minus \$98,900 to account for parts missing from some poles that are necessary to meet NESC standards.

Allocation of Gain or Loss

PGE will defer the gain on the sale of the Equipment of approximately \$473,549. The Company has agreed to place the gain in the property sales balancing account to allow return of the gain to customers.

Records Availability, Audit Provisions, and Reporting Requirements

During Staff's investigation the Company provided requested information in a timely and professional manner.

Public Interest Compliance

The Commission customarily applies a no harm standard with regard to the public interest compliance of property sales.

The proposed sale could have some impact on Customers through the Company's reductions in future pole-leasing and pole-attachment revenues. However, the price compensates customers for one year of net retail revenues PGE would receive if the sale does not take place and five years of foregone pole attachment revenue.

Further, Staff finds the proposed sales price appropriate for the current case given the COP's goal of converting to efficient LED street lighting under PGE's Schedule 95 Tariff.

Staff typically uses market value as the benchmark to determine the reasonableness of the price utility property is to be sold. In other words, Staff supports the principle that utilities should seek market value for property, meaning the full value of the facilities being sold. The method used to derive Equipment purchase price in this case was agreed on after negotiations between PGE and Staff and is specific to this particular proposed sale.

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PROPOSED COMMISSION MOTION:

The requested sale of property be approved and the gain be placed in the property sales balancing account.

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