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June 13, 2019

VIA ELECTRONIC FILING

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Public Utility Commission of Oregon
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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 Opening Brief.

Please contact this office with any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Katherine McDowell', written over a blue horizontal line.

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

OPENING BRIEF OF PORTLAND GENERAL ELECTRIC COMPANY

June 13, 2019

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I. INTRODUCTION

1 Portland General Electric Company (PGE) respectfully submits this opening brief to
2 the Public Utility Commission of Oregon (Commission). In 2017, Oregon experienced a
3 series of major storms that resulted in widespread power outages. After each storm, PGE
4 responded quickly and effectively to restore service to its customers. By year-end, these
5 efforts cost PGE \$10.6 million, or \$8.6 million more than PGE had in rates for major storm
6 restoration. Under ORS 757.259(2)(e), PGE filed a timely request for deferred accounting
7 seeking to recover \$8 million in storm restoration costs.

8 Approval of this deferral is consistent with the Commission’s traditional prioritization
9 of safety and reliability in the face of extreme weather events. It also recognizes the
10 indisputable fact that major storms are inherently unforeseeable events. Deferred accounting
11 is an appropriate and necessary tool to respond to the extraordinary challenges PGE and its
12 customers faced in 2017, and to encourage PGE’s unwavering commitment to system
13 reliability before, during, and after extreme weather events.

14 Staff, the Alliance of Western Energy Consumers (AWEC), and Oregon Citizens’
15 Utility Board (CUB) oppose PGE’s 2017 storm deferral. They do not challenge the
16 extraordinary nature of the 2017 storm events, the prudence of PGE’s restoration efforts, or
17 the reasonableness of the costs expended. Instead, the parties claim that major storms are
18 stochastic in nature and the dollars involved here should be deemed insufficient to meet the
19 deferral threshold. But these arguments ignore or misinterpret Commission precedent
20 supporting deferred accounting in this context, and invoke inapposite cases involving net
21 power costs.

1 In summary, this is a case where deferral is appropriate and necessary. The
2 Commission should exercise its discretion to approve PGE’s 2017 storm deferral and allow
3 amortization over one year, resulting in a one-time rate increase of 0.44 percent.

II. BACKGROUND

4 When a major storm affects PGE’s transmission and distribution systems, customers
5 expect PGE to respond quickly and effectively to restore electrical service.¹ To promote
6 public safety and welfare during and after major storm events,² PGE takes an “all-hands-on-
7 deck” approach to ensure electric service is back online as soon as possible.³ For example, in
8 just one of the major storms covered by its deferral filing, PGE deployed over 1,000 field
9 workers and support personnel to restore power to approximately 185,000 customers.⁴ These
10 emergency restoration efforts in the midst of inclement weather conditions can lead to
11 significant costs associated with dispatching crews and contractors to identify and mitigate
12 outages.⁵

13 PGE does not just react to major storms, however. PGE also proactively manages
14 maintenance and improvements to its transmission and distribution system to develop storm
15 resiliency. PGE is employing industry best practices criteria to evaluate threats to the grid as
16 part of its risk management strategy, and responsible long-term planning efforts are
17 underway to address system reliability, including underground lines, tree wires, vegetation
18 management, distribution automation, and “smart” fuses.⁶

¹ PGE/100, Nicholson – Bekkedahl/9; *In the Matter of Portland Gen. Elec. Co., Request for a Gen. Rate Revision*, Docket UE 215, PGE/100, Piro/4; *In the Matter of Portland Gen. Elec. Co., Request for a Gen. Rate Revision*, Docket UE 335, PGE/800, Nicholson – Bekkedahl/16; Docket UE 335, PGE/1500, Pope – Lobdell/10.

² PGE/100, Nicholson – Bekkedahl/10; Docket UE 335, PGE/800, Nicholson – Bekkedahl/16; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/12, 13.

³ Docket UE 335, PGE/800, Nicholson – Bekkedahl/13.

⁴ PGE/100, Nicholson – Bekkedahl/3;

⁵ PGE/100, Nicholson – Bekkedahl/9-10; Docket UE 335, PGE/1500, Pope – Lobdell/10; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/8, 12.

⁶ PGE/100, Nicholson – Bekkedahl/10-12; PGE/200, Nicholson – Bekkedahl – Tooman/18.

1 Storms are categorized according to their severity, with Level III storms being the
2 most severe. Level III storms are defined as containing one or more of the following
3 characteristics: (1) a storm that impacts at least 50,000 customers; or (2) a storm that
4 qualifies for Institute of Electrical and Electronics Engineers (IEEE) Major Event Day
5 exclusion;⁷ or (3) a storm taking several substations and feeders out of service.⁸

6 Storm frequency and severity is inherently unpredictable, and response costs are often
7 substantial.⁹ PGE historically managed these costs through insurance, but with changes in
8 the insurance industry, it is no longer economical to carry insurance for storm restoration
9 costs.¹⁰ Therefore, beginning with its 2011 general rate case, docket UE 215, PGE proposed
10 a balancing account to address major storm restoration costs.¹¹

11 To resolve disputes over PGE's proposal, the parties in docket UE 215 ultimately
12 stipulated to a more one-sided mechanism, under which PGE's base rates include an amount
13 reflecting the rolling ten-year average of Level III storm costs (adjusted for inflation), and
14 PGE is allowed to carry forward only positive (unspent) accrual balances.¹² In other words,
15 the mechanism allows excess funds in calmer years to be carried forward to cover stormier
16 years in future, but it does not permit use of those calm-year funds to be applied to cover the
17 costs of previous stormy years.¹³ PGE's experience over the last eight years has shown that,

⁷ An IEEE Major Event Day exclusion is a day in which PGE's daily System Average Interruption Duration Index exceeds a threshold value. In 2017, that threshold was 4.84 minutes. Docket UE 335, PGE/800, Nicholson – Bekkedahl/13 n.12.

⁸ PGE/100, Nicholson – Bekkedahl/2.

⁹ Docket UE 335, PGE/2100, Nicholson – Bekkedahl/6, 8, 12. In this brief, PGE refers to “Level III storms” and “major storms” interchangeably.

¹⁰ Docket UE 215, PGE/100, Piro/16; Docket UE 215, PGE/800, Hawke – Nicholson/11; Docket UE 215, PGE/1000, Pope – Tooman/9.

¹¹ Docket UE 215, PGE/800, Hawke – Nicholson/11-14.

¹² See PGE/100, Nicholson – Bekkedahl/3, 9; Order No. 10-478, at 6, Appendix B at 5; Docket UE 319, PGE/800, Nicholson – Bekkedahl/26, 28.

¹³ See Docket UE 319, PGE/800, Nicholson – Bekkedahl/26-29.

1 unless the mechanism is coupled with deferred accounting, the asymmetry of the mechanism
2 denies PGE an opportunity to recover its prudently-incurred major storm restoration costs.¹⁴

3 The original accrual amount authorized in docket UE 215 was \$2 million annually,
4 effective beginning in 2011, based on historical storm cost data available at that time.¹⁵
5 Since 2011, however, PGE has experienced greater volatility in year-to-year restoration
6 costs,¹⁶ with a significant uptick in major storms in recent years. PGE incurred substantial
7 storm restoration costs over four consecutive years in 2014, 2015, 2016, and 2017.¹⁷ By the
8 end of 2015, PGE already had a zero balance in the accrual account due to major storm
9 response costs in 2014 and 2015.¹⁸ PGE then experienced two Level III storms in the fourth
10 quarter of 2016, resulting in approximately \$4.5 million in major storm damage costs, not
11 including costs incurred responding to a third storm that nearly qualified as Level III.¹⁹ The
12 2016 annual accrual of \$2 million was insufficient, leaving PGE unable to recover its
13 prudently incurred costs of restoring service to customers that year.²⁰

14 At the outset of yet another major storm in January 2017, therefore, PGE filed an
15 application to defer its 2017 storm restoration costs.²¹ As it turned out, 2017 was a
16 particularly severe year, with PGE ultimately responding to four Level III storms at an
17 extraordinary cost of \$10.6 million to restore service to its customers, not including costs
18 incurred responding to a fifth storm that nearly qualified as Level III.²² This amounted to
19 over five times the annual accrual in rates for major storm restoration work. To put the

¹⁴ Docket UE 335, PGE/800, Nicholson – Bekkedahl/16. *See also* Docket UE 335, PGE/2100, Nicholson – Bekkedahl/9, 10-11, 12-13; Docket UE 335, PGE/2700, Nicholson – Bekkedahl/6-7.

¹⁵ *See* PGE/100, Nicholson – Bekkedahl/3.

¹⁶ Docket UE 335, PGE/100, Pope – Lobdell/12.

¹⁷ *See* PGE/200, Nicholson – Bekkedahl – Tooman/13; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/10 (Table 1); Docket UE 335, PGE/2700, Nicholson – Bekkedahl/7.

¹⁸ Docket UE 319, PGE/800, Nicholson – Bekkedahl/26-27.

¹⁹ Docket UE 319, PGE/800, Nicholson – Bekkedahl/26.

²⁰ Docket UE 319, PGE/800, Nicholson – Bekkedahl/27.

²¹ PGE/200, Nicholson – Bekkedahl – Tooman/13; PGE’s Application for the Deferral of Storm-Related Restoration Costs (Jan. 11, 2017).

²² PGE/100, Nicholson – Bekkedahl/4.

1 magnitude in perspective, these major storm costs were approximately 60 percent of the \$14
2 million in rates for all service restoration (including non-weather related outages), and
3 approximately 13 percent of total transmission and distribution operations and maintenance
4 costs forecast for the 2016 test year.²³

5 As CUB acknowledged in its testimony in docket UE 335, 2017 was “not a normal
6 year for storms in Oregon[,]” with the magnitude of Level III storm costs making it one in
7 eighteen years.²⁴ Two of the four individual Level III storms in 2017 resulted in storm
8 damage expense greater than the 10-year rolling average for all storm costs in a given year.²⁵
9 In fact, the National Weather Service characterized the January 2017 snowstorm as a one in
10 25-year storm, and the unusual April wind storm led to the highest outage numbers PGE has
11 experienced in twelve years.²⁶

12 Of the \$10.6 million in major storm costs for 2017, approximately \$10.0 million were
13 incurred on or after the January 11, 2017, filing date of PGE’s deferral application.²⁷ After
14 deducting \$2.0 million for the annual accrual in 2017, PGE seeks to defer \$8.0 million.²⁸
15 Full recovery of the \$8.0 million deferral would result in a 2017 regulated adjusted return on
16 equity (ROE) of 8.26 percent, which is still 134 basis points below PGE’s then-authorized
17 ROE of 9.6 percent.²⁹ Recovery of this amount would result in a one-time overall average
18 price increase of approximately 0.44 percent compared to total forecasted 2019 revenues,
19 assuming a one-year amortization.³⁰

20 After PGE filed its storm deferral, PGE filed a general rate case in 2017, docket UE
21 319. In response to increasing and highly unpredictable storm costs, PGE proposed

²³ PGE/100, Nicholson – Bekkedahl/6. For 2017 in total, PGE’s actual operations and maintenance expense for distribution exceeded budget by approximately \$18 million. *Id.*

²⁴ Docket UE 335, CUB/200, Gehrke – Jenks/25.

²⁵ Docket UE 335, CUB/200, Gehrke – Jenks/25.

²⁶ Docket UE 335, CUB/200, Gehrke – Jenks/25.

²⁷ PGE/100, Nicholson – Bekkedahl/5.

²⁸ PGE/100, Nicholson – Bekkedahl/5.

²⁹ PGE/100, Nicholson – Bekkedahl/14.

³⁰ PGE/100, Nicholson – Bekkedahl/14.

1 eliminating the asymmetry of the accrual mechanism to allow PGE the opportunity for full
2 recovery of these costs.³¹ Staff opposed this more balanced treatment of storm costs,
3 observing that if costs from a particular storm are significant, PGE could file for deferred
4 accounting treatment.³² The parties to the 2017 rate case stipulated to continued use of the
5 one-sided mechanism, with an update to increase the annual collection amount to \$2.6
6 million, based on new inputs to the 10-year rolling average.³³

7 PGE filed another general rate case in February 2018, docket UE 335. With the 2017
8 deferral application still pending and now informed by the full magnitude of the costs of four
9 major storms in 2017, PGE once again proposed modifying the one-sided storm accrual
10 mechanism to allow both negative and positive balances to carry forward.³⁴ In this case,
11 CUB echoed Staff's position in the 2017 rate case, effectively arguing that modifications to
12 the accrual mechanism are unnecessary because symmetry can be achieved through deferrals
13 in particularly stormy years.³⁵ Staff similarly opposed changing the mechanism but also
14 indicated it would oppose PGE's 2017 deferral request because, in its view, 2017 storm
15 restoration costs did not rise to the level to merit such treatment.³⁶

16 In docket UE 335, the Commission declined to make changes to the accrual
17 mechanism at that time, instead encouraging PGE to refine its proposal in future with more
18 analysis in the record regarding the relationship between climate change and storm intensity

³¹ See Order No. 17-511, at 4 (Dec. 18, 2017); Docket UE 319, PGE/800, Nicholson – Bekkedahl/1, 28-30. PGE had proposed a similar change in a general rate case filed in February 2013, but to resolve continuing disputes over the mechanism, the parties to that proceeding stipulated to continuation of one-sided mechanism already in place. See *In the Matter of Portland Gen. Elec. Co., Request for a Gen. Rate Revision*, Docket UE 262, Order No. 13-459, at 7 (Dec. 9, 2013).

³² Order No. 17-511, at 4.

³³ Order No. 17-511, at 4; see Docket UE 319, PGE/200, Gardener – Townsend – Jenks – Mullins – Brown/9-10 (Joint Testimony in Support of Partial Stipulation).

³⁴ Docket UE 335, PGE/800, Nicholson – Bekkedahl/14-15, 18. The Company also requested, and ultimately received, an increase in the annual accrual amount to \$3.8 million to reflect more current storm data in the rolling ten-year average. PGE/100, Nicholson – Bekkedahl/3 n.3; Docket UE 335, PGE/800, Nicholson – Bekkedahl/15, 18.

³⁵ See Order No. 19-129, at 14 (Apr. 12, 2019) (modifying Order No. 18-464 (Dec. 14, 2018)); Docket UE 335, CUB/200, Gehrke – Jenks/26-27.

³⁶ Order No. 19-129, at 14; Docket UE 335, Staff/700, Moore/4-6.

1 and frequency, as well as the Company’s efforts to adapt to climate change by improving
2 system resiliency in the face of worsening storms.³⁷ The Commission also observed that
3 “Level III storm costs that can be justified as extreme may warrant a deferral under ORS
4 757.259(2)(e)” and directed Staff to bring PGE’s 2017 major storm deferral request forward
5 for resolution.³⁸

6 Accordingly, on March 8, 2019, Staff filed a Public Meeting Memorandum for the
7 Commission’s March 12, 2019 public meeting, in which Staff recommended the Commission
8 deny PGE’s 2017 storm deferral. AWEC and CUB filed joint comments supporting this
9 recommendation. PGE filed a response requesting an opportunity to file testimony and
10 present its case at hearing, and at the March 12 meeting, the Commission granted PGE’s
11 request.

12 A prehearing conference occurred on March 13, 2019. PGE filed direct testimony on
13 March 27, 2019, Staff, AWEC, and CUB filed reply testimony on April 24, 2019, and PGE
14 filed rebuttal testimony on May 13, 2019. On May 24, 2019, the Commission provided
15 notice cancelling the hearing.

16 That same day, the Administrative Law Judge issued a bench request directing
17 AWEC and PGE to describe their respective proposals for how to address a minor
18 miscalculation in the most recent 10-year rolling average accrual amount, which results in an
19 overpayment by customers of \$100,000 per year. AWEC and PGE filed responses on May
20 31, 2019. On June 7, 2019, AWEC filed a reply to PGE’s response to the bench request,
21 PGE filed a reply to AWEC’s response, and CUB filed a reply to both responses.

³⁷ Order No. 19-129, at 14-15.

³⁸ Order No. 19-129, at 14.

III. ARGUMENT

1 A. Deferral Under ORS 757.259(2)(e) is Appropriate for PGE’s Major Storm 2 Restoration Costs in 2017.

3 As the Commission explained in Order No. 05-1070 in docket UM 1147, “[d]eferred
4 accounts . . . are a statutorily authorized exception to the general prohibition against
5 retroactive ratemaking[.]” which the Commission has now utilized for more than 30 years “to
6 benefit both ratepayers and utilities.”³⁹ Specifically, ORS 757.259 provides, in relevant part:

7
8 (2) Upon application of a utility or ratepayer . . . the commission by order may
9 authorize deferral of the following amounts for later incorporation in rates:

10 . . .

11 (e) Identifiable utility expenses or revenues, the recovery or refund of which the
12 commission finds should be deferred in order to minimize the frequency of rate
13 changes or the fluctuation of rate levels or to match appropriately the costs borne by
14 and benefits received by ratepayers.

15 In docket UM 1147, the Commission established an overarching two-step framework for
16 application of deferred accounting under this statutory provision, which has been
17 characterized as follows:

18
19 ORS 757.259(2)(e) provides that expenses may be deferred to decrease the frequency
20 of rate cases or match customer costs and benefits. If either or both of these statutory
21 criteria are satisfied, the Commission considers whether it should exercise its
22 discretion under ORS 757.259(2) to grant deferral by considering both the type of
23 event that caused the request for deferral and the magnitude of the event's effect.
24 These considerations (event and magnitude) interact with each other and neither is
25 dispositive.⁴⁰

26 In considering how to exercise its discretion, the Commission emphasized the value
27 of using “a flexible, fact-specific review approach that acknowledges the wide range of

³⁹ *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 2 (Oct. 5, 2005). AWEC argues that a deferral of 2017 storm costs is not warranted due to the number of PGE’s active deferrals. AWEC/100, Hellman/20-21. As PGE’s witnesses explain, however, only two deferred accounts address unanticipated costs; the remainder are related to statutory mandates or Commission requirements. PGE/100, Nicholson – Bekkedahl/12-14; PGE/200, Nicholson – Bekkedahl – Tooman/10-12.

⁴⁰ *In the Matter of Portland Gen. Elec. Co., Application for Deferral of Expenses Associated with Two Residential Demand Response Pilots*, Docket UM 1708, Order No. 15-203, Appendix A, at 2 (June 23, 2015) (Staff Report recommending approval of deferral request).

1 reasons why deferred accounting might be beneficial to customers and utilities.”⁴¹ While the
2 Commission declined to adopt a rigid framework for analyzing deferral requests, the
3 Commission did articulate some principles for evaluating the interplay between the nature of
4 an event and the magnitude of the event’s effect.⁴² Essentially, these boil down to a sliding
5 scale: foreseeable events require a higher magnitude of financial impact on the utility,
6 whereas events that are unforeseeable (i.e. not reasonably susceptible to prediction or
7 quantification) may have lower financial impact.⁴³

8 **a. Major Storms are Inherently Unpredictable, and Severe Storm Years Like 2017**
9 **Are Precisely the Type of Unanticipated Event Warranting Exercise of**
10 **Commission Discretion Under ORS 757.259(2)(e).**

11 The sheer number and severity of the major storms in 2017 were unforeseeable, *i.e.*,
12 “not susceptible to prediction and quantification[,]” and the impact on PGE was significant,
13 warranting exercise of the Commission’s discretion to allow for deferred accounting.

14 Major storms are by their very nature unpredictable.⁴⁴ Over the last twenty-five
15 years, there has been a vaguely discernable pattern of clustering, with periods of calm as well
16 as periods of more frequent storm activity,⁴⁵ but the timing of those cycles, as well as the
17 frequency and severity of impact when storms occur, do not lend to being forecast or
18 accurately modeled.⁴⁶ In other words, Level III storm risks are not “reasonably predictable

⁴¹ Order No. 05-1070, at 1. *See also id.* at 5.

⁴² *See* Order No. 05-1070, at 7, 10.

⁴³ *See* Order No. 05-1070, at 7. Specifically, the Commission characterized the foreseeable category of events as either (1) events that were modeled in rates and fall within a foreseen range of risk, or (2) events that were not modeled but are nevertheless foreseeable within the normal course of events. *See id.* These risks “can be predicted to occur as part of the normal course of events” and are classified as “stochastic risks.” *Id.* at 3. The unforeseeable category of events, by contrast, are those events that do not lend themselves to forecasting or, even if modeled in rates, in the particular instance involve extenuating circumstances that were not foreseen. *See id.* at 7. These risks “are not susceptible to prediction and quantification” and are classified as “scenario risks.” *Id.* at 3. The Commission stated that “risks that are reasonably predictable and quantifiable are generally not appropriate for deferral unless the second consideration, the magnitude of financial impact on the utility, is substantial enough to warrant deferral.” *Id.* at 3.

⁴⁴ PGE/200, Nicholson – Bekkedahl – Tooman/2-3; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/6.

⁴⁵ Docket UE 319, PGE/800, Nicholson – Bekkedahl/27. *See also* Staff/100, Moore/13 (Table 1).

⁴⁶ *See* Docket UE 319, PGE/800, Nicholson – Bekkedahl/29; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/6-7.

1 and quantifiable.”⁴⁷ And based on the storm activity PGE experienced over the previous
2 twenty years, an outlier year such as 2017, involving four major storms, was not foreseeable
3 in the normal course of events.⁴⁸ Furthermore, the actual costs of responding to multiple
4 major storms in 2017 to maintain safety and reliability of the grid and restore customer
5 power vastly exceed, by more than five times, the amount in rates that year.⁴⁹

6 Granting PGE’s 2017 storm restoration deferral is consistent with the Commission’s
7 past treatment of major storm costs under principles articulated in docket UM 1147. In
8 docket UM 1634, the Commission authorized deferral of storm restoration costs PacifiCorp
9 incurred after a severe rain and wind storm in Oregon in 2012.⁵⁰ PacifiCorp filed for deferral
10 before a complete damage assessment became available because, as Staff noted, PacifiCorp’s
11 “first priority” in the wake of the storm was “customer safety and power restoration . . .”⁵¹

12 Notwithstanding the fact that no financial figure was yet available to assess the full
13 magnitude of the triggering event, the Commission adopted Staff’s recommendation to
14 approve the deferral application.⁵² In the Staff Report, Staff noted that the deferral request
15 “result[ed] from damages caused by a severe storm” and explained the deferral was
16 appropriate because “[i]n establishing generic guidelines for deferred accounting in UM
17 1147, the Commission made clear that deferred accounting was designed to cover costs
18 associated with *this type of unanticipated event*.”⁵³ In other words, a severe storm is

⁴⁷ Order No. 05-1070, at 7 (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)).

⁴⁸ PGE/100, Nicholson – Bekkedahl/7, 8.

⁴⁹ PGE/100, Nicholson – Bekkedahl/4, 16.

⁵⁰ *In the Matter of PacifiCorp, dba Pacific Power’s Request for Deferred Accounting Order for Network Damage from Nov. 2012 Storm*, Docket UM 1634, Order No. 12-489, Appendix A, at 1 (Dec. 18, 2012).

⁵¹ Order No. 12-489, Appendix A, at 1.

⁵² Order No. 12-489, at 1, Appendix A at 2. PacifiCorp subsequently determined that costs of the storm would be fully covered by its self-insured reserves and withdrew its storm deferral application several months after the Commission’s order authorizing deferred accounting. Order No. 13-026 (Jan. 30, 2013). The Commission’s subsequent dismissal does not undermine the reasoning provided by Staff in its recommendation to the Commission to allow deferred accounting for the costs prudently incurred by a utility in responding to a major storm.

⁵³ Order No. 12-489, Appendix A, at 1 (emphasis added).

1 precisely the sort of “unanticipated event” contemplated for deferral in docket UM 1147.

2 AWEC’s predecessor, the Industrial Customers of Northwest Utilities (ICNU)
3 intervened in docket 1634. In contrast to AWEC’s position in this case, ICNU did not claim
4 that the storm deferral failed to meet the legal standards of ORS 757.259(2)(e) or otherwise
5 object to the deferral under the discretionary principles articulated in docket UM 1147.

6 **b. Without Deferred Accounting, the Current Ratemaking Framework for Major**
7 **Storm Restoration Costs Does Not Provide PGE an Opportunity to Recover**
8 **Prudently Incurred Costs.**

9 Without deferred accounting, the asymmetry of PGE’s accrual mechanism for major
10 storm restoration costs denies PGE an opportunity to recover its costs in years such as
11 2017.⁵⁴ Specifically, the accrual mechanism reflects a rolling average of the most recent
12 storm costs over a ten-year period.⁵⁵ This highly-simplified methodology is not a modeling
13 exercise,⁵⁶ nor even an approximation of actual storm damage costs, which are too variable
14 and inherently unpredictable to model with any degree of precision.⁵⁷ And because the
15 pattern of historical storm activity over the last 25 years has involved years with no storms as
16 well as spurts of years with high storm costs, in any ten-year period the zero-cost years pull
17 down the rolling average substantially.⁵⁸

18 As PGE’s witnesses have explained, the end result of overlaying an averaging
19 mechanism on this storm activity pattern, and then imposing asymmetrical rules permitting
20 positive accrual balances to carry forward while failing to track negative accrual balances, is
21 that PGE will inevitably be precluded from recovering the full extent of its storm restoration
22 costs in high-storm years like 2017.⁵⁹ In other words, contrary to Staff’s position, it is

⁵⁴ See PGE/100, Nicholson – Bekkedahl/9, 16; PGE/200, Nicholson – Bekkedahl – Tooman/14-15; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/9.

⁵⁵ PGE/100, Nicholson – Bekkedahl/6.

⁵⁶ PGE/100, Nicholson – Bekkedahl/6.

⁵⁷ PGE/100, Nicholson – Bekkedahl/6; PGE/200, Nicholson – Bekkedahl – Tooman/2-3, 15; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/7.

⁵⁸ PGE/200, Nicholson – Bekkedahl – Tooman/15. See also Staff/100, Moore/13 (Table 1).

⁵⁹ Docket UE 319, PGE/800, Nicholson – Bekkedahl/27-28; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/10-11; Docket UE 335, PGE/2700, Nicholson – Bekkedahl/6.

1 mathematically impossible for PGE to be “made whole” without deferral,⁶⁰ as PGE will not
2 have the opportunity to recover the full extent of its prudently-incurred costs over time.⁶¹

3 In fact, both Staff and CUB have recognized this fact in prior dockets, pointing to
4 deferral accounting as the appropriate tool to address the inequity of the current storm accrual
5 mechanism in years with extreme storms.⁶² Staff now argues that 2017 storm restoration
6 costs were not severe enough to merit deferral,⁶³ but both PGE and CUB have documented
7 2017 as an extreme storm year with extraordinary costs.⁶⁴ The effect of Staff’s position is
8 that deferral would almost certainly never be available, even in the most extreme storm
9 years.⁶⁵

10 **c. Allowing the 2017 Storm Deferral Supports PGE’s Commitment to Effective**
11 **Storm Response and Managing its System to Prevent and Mitigate Major**
12 **Storm Damage.**

13 PGE’s primary responsibility in fulfillment of the regulatory compact is to maintain
14 safe and reliable electric power service. Both customers and the general public place high
15 expectations on PGE for uninterrupted service, as well as safe street conditions and prompt
16 service restoration in the wake of major storms.⁶⁶ As Staff noted in recommending approval
17 of PacifiCorp’s storm deferral in docket UM 1634, when a major storm hits a utility’s service
18 territory, knowing deferred accounting is a potential option allows a utility to focus on the
19 paramount issue at hand, “addressing all safety and service concerns,” rather than worrying

⁶⁰ Staff/100, Moore/12-13. AWEC, by contrast, appears to acknowledge that the current accrual mechanism does not allow PGE an opportunity for full cost recovery of its prudently-incurred costs, but AWEC takes the position that the minimal recovery afforded by the mechanism is necessary to incentivize PGE to “invest[] in distribution system resiliency.” AWEC/100, Hellman/15. PGE addresses that issue above.

⁶¹ PGE/100, Nicholson – Bekkedahl/15; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/10; Docket UE 335, PGE/2700, Nicholson – Bekkedahl/7.

⁶² Order No. 17-511, at 4; Order No. 19-129, at 14; Docket UE 335, CUB/200, Gehrke – Jenks/26-27.

⁶³ Staff/100, Moore/5, 9.

⁶⁴ PGE/100, Nicholson – Bekkedahl/6-7; Docket UE 335, CUB/200, Gehrke – Jenks/25.

⁶⁵ Docket UE 335, PGE/2700, Nicholson – Bekkedahl/5.

⁶⁶ PGE/100, Nicholson – Bekkedahl/9, 10; Docket UE 215, PGE/100, Piro/4; Docket UE 335, PGE/800, Nicholson – Bekkedahl/16; Docket UE 335, PGE/1500, Pope – Lobdell/10; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/12, 13.

1 about repair costs immediately in the wake of the storm.⁶⁷ And as Staff further
2 acknowledged, this is consistent with the “discretion and flexibility” afforded the
3 Commission under docket UM 1147 “to allow deferred accounting to encourage utility
4 behavior consistent with good regulatory policy.”⁶⁸

5 The bulk of large storm restoration costs occur because of the need to respond quickly
6 for safety reasons, requiring PGE’s labor force to work long hours in terrible weather
7 conditions. In a major storm, PGE cannot limit its spending to a pre-determined amount (by,
8 for example, restricting overtime and outside contractors) and still meet its commitment to
9 restore service to all customers as quickly as possible.⁶⁹ Given the public safety imperatives
10 implicated, the Commission should continue to prioritize prompt and prudent restoration of
11 service by allowing deferred accounting in the wake of a major storm.⁷⁰

12 Furthermore, a deferral does not guarantee cost recovery. Because PGE must
13 demonstrate the prudence of the costs it incurs mitigating and addressing storm damage, it
14 has a significant incentive to expend resources responsibly even in the midst of a major
15 storm.⁷¹ No party to this case has claimed PGE’s storm response in 2017 was imprudent.

16 Now more than ever, PGE’s customer satisfaction is dependent on reliability and
17 prompt outage restoration.⁷² As a result, PGE already has well-established systems in place
18 to improve the resiliency of its transmission and distribution system to withstand increasingly
19 severe weather and minimize the impacts of major storms when they occur. This includes
20 underground lines, tree wires, vegetation management, distribution automation, and “smart”

⁶⁷ Order No. 12-489, Appendix A, at 2.

⁶⁸ Order No. 12-489, Appendix A, at 2.

⁶⁹ PGE/100, Nicholson – Bekkedahl/9.

⁷⁰ PGE/100, Nicholson – Bekkedahl/3, 8-10; PGE/200, Nicholson – Bekkedahl – Tooman/17; Docket UE 335, PGE/1500, Pope – Lobdell/10; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/6, 8, 12. *See also* Docket UE 335, PGE/2700, Nicholson – Bekkedahl/8-9.

⁷¹ Docket UE 335, PGE/2700, Nicholson – Bekkedahl/8.

⁷² PGE/100, Nicholson – Bekkedahl/10

1 fuses.⁷³ PGE is employing industry best practices criteria to evaluate threats to the grid as
2 part of its risk management strategy, and responsible long-term planning efforts are
3 underway to address system reliability, driven by PGE’s commitment and responsibility to
4 fulfill its core function as a public utility – maintaining safe, reliable power service.⁷⁴

5 Allowing PGE to recover its costs for major storm service restoration through this
6 deferral will not lessen PGE’s commitment to increasing the resiliency of its system; on the
7 contrary, such a decision supports PGE’s continued commitment to safety and reliability in
8 anticipating and responding to extreme weather events.

9
10 **B. The Arguments of Staff, AWEC, and CUB Do Not Support Denial of the 2017**
11 **Storm Deferral.**

12 In opposition to PGE’s 2017 storm deferral, the parties make the following
13 arguments: (1) Staff, AWEC, and CUB argue that storm restoration costs are stochastic in
14 nature and therefore should be subject to a substantial threshold for deferred accounting;⁷⁵
15 (2) the parties all analogize to deferral applications involving net power costs with sizeable
16 deadbands to support their argument that 2017 storm response costs are not sufficiently
17 substantial;⁷⁶ (3) AWEC further advocates that if the Commission does not support the direct
18 importation of a power cost deadband as a threshold, the Commission should use a deadband
19 involving the calculation of two standard deviations from average storm costs;⁷⁷ and (4) Staff
20 and AWEC argue that if the Commission were to grant deferral, PGE’s customers would be
21 paying for 2017 storm costs twice, once through the deferral and once through the annual
22 accrual.⁷⁸ None of these arguments warrant denial of PGE’s 2017 storm deferral.

⁷³ PGE/100, Nicholson – Bekkedahl/10-12. *See* Order No. 19-129, at 15 (encouraging PGE to “develop a robust and resilient distribution system” that “requires less expense to recover from Level III storms[,]” because “[a]dapting to climate change should be a holistic undertaking in that recovery costs from more frequent high-impact events are balanced with investments and practices that mitigate the negative consequences from those events”).

⁷⁴ PGE/200, Nicholson – Bekkedahl – Tooman/18.

⁷⁵ Staff/100, Moore/7-8, 10-11, 13; AWEC/100, Hellman/11-12; CUB/100, Gehrke/4, 5.

⁷⁶ Staff/100, Moore/9, 11-12, 14-16; AWEC/100, Hellman/13-14. *See* CUB/100, Gehrke/5, 7-8.

⁷⁷ *See* AWEC/100, Hellman/2-3, 16-20.

⁷⁸ Staff/100, Moore/16. *See* AWEC/100, Hellman/15.

1 **a. Extraordinary Storm Costs in 2017 Were Unforeseeable and Therefore Classify**
2 **as a “Scenario Risk” Rather than a “Stochastic Risk.”**

3 As explained above, inherently unpredictable major storm activity is precisely the
4 kind of event contemplated by the Commission for deferral. The Commission has articulated
5 a framework in which foreseeable events (those events reasonably susceptible to prediction
6 and quantification and falling within the foreseen range of risk, or if not modeled, foreseeable
7 within the ordinary course of events) are subject to a higher bar than unforeseeable events
8 (those events not reasonably susceptible to prediction and quantification, or, if modeled in
9 rates, that far exceed the foreseen range of risk owing to extenuating circumstances).⁷⁹

10 In some cases, in analyzing whether a risk is foreseeable or not the Commission has
11 used the nomenclature of “stochastic risk” for the foreseeable events and “scenario risk” for
12 the unforeseeable events,⁸⁰ but these terms do not change the underlying analysis. The storm
13 activity at issue here squarely fits the definition for an unforeseeable event and a scenario
14 risk.

15 Efforts by Staff and intervenors to characterize the storm activity in 2017 as a
16 stochastic risk are misguided. The parties effectively argue here, much as Staff did in docket
17 UM 1234 with respect to an extended forced outage at PGE’s Boardman coal plant, that 2017
18 storm costs should be classified as a stochastic risk because it is foreseeable that the general
19 category of underlying event will occur at some point (here, a Level III storm, there a forced
20 outage).⁸¹ The Commission rejected this overly expansive characterization of stochasticity in

⁷⁹ Order No. 05-1040, at 7.

⁸⁰ See Order No. 04-108, at 8-9; *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 9-10 (Feb. 12, 2007); *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). Cf. *In the Matter 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) (allowing deferred accounting for costs incurred as a result of the dissolution of a regional transmission organization, without resort to labeling the event as a scenario risk or a stochastic risk, on the grounds that the risk “was not reasonably predictable and quantifiable[.]”); Order No. 12-489, at 1, Appendix A at 2 (similarly allowing deferred accounting for unanticipated storm costs based on a staff report that did not specifically classify the 2012 rain and wind storm as a scenario event).

⁸¹ See Staff/100, Moore/8 (referring generally to “Level III storm damage restoration costs,” as opposed to the specific and extraordinary costs at issue from 2017 in particular); *id.* at 13 (describing the range of storm cost

1 docket UM 1234, and it should do so here as well.⁸² Specifically, the Commission clarified
2 the relevant question was whether the specific extended outage that occurred in UM 1234
3 was foreseen, not whether outages as a general matter were foreseen.⁸³ Under this
4 framework, the Commission concluded the extreme outage at Boardman classified as a
5 scenario risk.⁸⁴

6 Applying this same lens here, the risk to be evaluated is not whether a major storm
7 will occur at some point; rather, the risk is whether the particularly severe storm damage that
8 occurred in 2017 will occur, especially following as it did immediately on the heels of three
9 prior consecutive years of substantial storm damage.⁸⁵ While it is inevitable that major
10 storms will occur on occasion, the number and severity of storms that occurred in a single
11 year in 2017 was extraordinary. With accrual reserves already wiped out from the preceding
12 years, the events in 2017 quite literally amounted to “the perfect storm[,]”⁸⁶ causing PGE to

values over the period 1995-2017). AWEC/100, Hellman/11-12 (also referring generally to “Level III storm costs” and describing the distribution over the years). CUB/100, Gehrke/4-5 (arguing storm costs are stochastic because investors were apprised of the general risk of storm cost damage through a notice contained in the Company’s 2016 annual report). Cf. Order No. 07-049 at 5 (“Contrary to PGE’s position that the Boardman Outage is a scenario risk, Staff evaluates it as a stochastic risk, because the underlying event – a forced outage – is foreseeable, and the frequency of forced outages is quantifiable.”); *id.* at 7 (“ICNU [(AWEC’s predecessor)]observes that the history of four extended outages for PGE thermal generating plants in a period of 26 years undermines PGE’s assertion that an extended outage for a plant such as Boardman is not expected to occur in the lifetime of the plant.”).

⁸² See Order No. 07-049 at 9-10.

⁸³ Order No. 07-049, at 9 (noting that outages as a general matter were modeled in rates but agreeing with PGE that the Commission “must determine whether the Boardman outage *itself* was foreseen, or was predictable within the forecast range of probability”) (emphasis in original).

⁸⁴ Order No. 07-049, at 10.

⁸⁵ CUB argues that storm costs are stochastic because investors were apprised of the general risk of storm cost damage through a notice contained in the Company’s 2016 annual report. CUB/100, Gehrke/4-5. This is essentially the same misguided argument proffered by the other parties. The Commission clarified in Order No. 07-049 that discretionary deferral analysis must focus on the particular event (actual 2017 storm costs), not a category of events in the abstract (storms generally). See Order No. 07-049, at 9-10.

⁸⁶ See Order No. 04-108, at 8-9 (describing the stochastic/scenario framework introduced by Staff in that proceeding, and explaining that “[a]n example of a stochastic risk is variation in hydro availability over time[,]” whereas “[a]n example of a scenario risk is the ‘perfect storm’ of 2000-2001, a cascade of effects that included poor hydro conditions, cold weather, and extremely volatile power markets”); Order No. 07-049, at 9 (reiterating that “a stochastic risk can be predicted to occur as part of the normal course of events, whereas a scenario risk is not susceptible to prediction or quantification.”).

1 incur excessive restoration and response costs with no fair opportunity for recovery absent a
2 deferral.

3 Given the volatility in storm activity over the years, neither the frequency nor the
4 severity of such events are reasonably susceptible to prediction and quantification.⁸⁷ In
5 seeking to characterize the 2017 storm costs as a stochastic risk, none of the parties aver that
6 major storm restoration costs are susceptible to prediction and quantification.⁸⁸ Rather, Staff
7 – and to a certain extent, AWEC as well – appear to be taking a novel position that a
8 stochasticity classification can turn on whether an event was “modeled” in rates in the
9 broadest sense of that term.⁸⁹ In particular, Staff’s witness asserts that: (1) the rolling ten-
10 year average is a “deterministic model;”⁹⁰ (2) major storm costs were therefore “modeled and
11 foreseen[;]”⁹¹ and (3) “the Commission will treat an event as a stochastic risk if it is *modeled*
12 *in rates* and/or is foreseeable.”⁹²

13 PGE does not agree that an accrual mechanism with a 10-year average baseline
14 should be classified as a form of “modeling” for the purpose of analyzing whether a
15 discretionary deferral is warranted.⁹³ Indeed, the atypical design of the storm cost
16 mechanism now in rates makes clear that these costs defy capture through normal
17 ratemaking.

18 Irrespective, Staff does not point to any instances in which the Commission has
19 treated the simplistic modeling of a cost in rates as a freestanding, dispositive factor

⁸⁷ See PGE/100, Nicholson – Bekkedahl/6; PGE/200, Nicholson – Bekkedahl – Tooman/2-3, 15; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/7.

⁸⁸ See Staff/100, Moore/7-8, 10-11; AWEC/100, Hellman/11-12; CUB/100, Gehrke/4-5.

⁸⁹ See Staff/100, Moore/7 (“Events are considered ‘stochastic’ when, even though their occurrence has a randomness to it, they are still able to be modeled and forecasted with some degree of certainty.”); AWEC/100, Hellman/11-12 (arguing major storm costs are a stochastic risk because, according to AWEC, “there is a distribution of costs around some average[.]” and “PGE collects a special accrual from customers based on the historical average of storm costs around which there is a stochastic distribution.”).

⁹⁰ Staff/100, Moore/11.

⁹¹ Staff/100, Moore/8.

⁹² Staff/100, Moore/8 (emphasis added; citing generally to Order No. 05-1040).

⁹³ PGE/100, Nicholson – Bekkedahl/8.

1 justifying denial of a deferral.⁹⁴ Rather, under the framework established in docket UM 1147
2 and subsequent Commission decisions, the key questions are whether: (1) the actual event
3 was susceptible to prediction and quantification; and (2) if a predictable and quantifiable risk
4 was modeled in rates, whether the actual event fell within the range of risk foreseen by the
5 model.⁹⁵ Staff’s new interpretation would effectively end run the key issue of foreseeability
6 if the event is in any way captured in rates—even through an accrual mechanism based on a
7 simple, ten-year rolling average.

8 Staff’s approach is irreconcilable with the position it took in docket UM 1634,
9 recommending deferral of PacifiCorp’s major storm costs as a matter of good regulatory
10 policy.⁹⁶ It is also inconsistent with the position Staff took in PGE’s general rate case in
11 docket UE 319 when, in arguing against the Company’s proposed balancing mechanism,
12 Staff observed that if costs from a particular storm are significant, PGE has the ability to file
13 for deferred accounting treatment.⁹⁷ If 2017 does not count as a year in which storm costs
14 are significant, it is difficult to imagine any year that would.

15 **b. Even if 2017 Storm Costs Were Classified as a Stochastic Risk, a Deferral is**
16 **Nevertheless Appropriate because the Costs Were Substantial.**

17 Under the framework established by the Commission in docket UM 1147,
18 unforeseeable (scenario) risks are more likely to be eligible for discretionary deferred
19 accounting than foreseeable (stochastic) risks, because the Commission imposes a higher
20 threshold on the latter set of risks in terms of the impact on utility costs or revenues.
21 Specifically, the Commission has indicated that “if a deferral application was based on an
22 event deemed to be a stochastic risk, deferral was warranted only if the financial magnitude
23 of the event was substantial, whereas deferral of a scenario event is appropriate if the

⁹⁴ See Order No. 05-1040, at 3, 7.

⁹⁵ See Order No. 04-108, at 9; Order No. 05-1040, at 3, 7; Order No. 06-483, at 4-5; Order No. 07-049, at 9-10.

⁹⁶ See Order No. 12-489, Appendix A, at 1-2.

⁹⁷ Docket UE 319, Order No. 17-511, at 4.

1 financial effect of the event is material.”⁹⁸ In this case, the extraordinary 2017 storm
2 restoration costs meet either threshold, as they were both material and substantial.

3 PGE experienced four major storms in 2017, at a total cost of \$10.6 million, more
4 than five times the \$2 million accrual in rates at the time.⁹⁹ The magnitude of storm costs
5 made 2017 one in eighteen years, with two of the four individual Level III storms in 2017
6 resulting in storm damage expense greater than the 10-year rolling average for all storm costs
7 in a given year.¹⁰⁰ Furthermore, the events in 2017 followed immediately on the heels of
8 three years of extensive storm activity that had already eaten up the prior accrual balance for
9 storm restoration costs and then some, well before the first storm of the year hit in January
10 2017.

11 As noted above, under the approach announced in docket UM 1147, the Commission
12 takes a fact-based, contextual approach to evaluating whether a deferral is appropriate.¹⁰¹ In
13 this context, the costs in 2017 far exceeded any pertinent range of risk for costs incurred by a
14 utility to restore power to customers as quickly as possible under severe weather
15 conditions.¹⁰²

16 **c. Under the Framework Established by the Commission in Docket UM 1147,**
17 **Formulaic Thresholds Drawn from Net Power Costs Cases Are Not Applicable**
18 **to PGE’s 2017 Storm Deferral.**

19 To support their position that the deferral should be denied, the parties point to a
20 series of decisions by the Commission adopting deadbands for recovery of net power costs,
21 measured in ROE basis points, to argue for imposing a similarly large threshold on deferral
22 of storm response costs.¹⁰³ Such a comparison is inapposite to the costs incurred by a utility

⁹⁸ Order No. 07-049, at 9.

⁹⁹ PGE/100, Nicholson – Bekkedahl/4, 16.

¹⁰⁰ PGE/100, Nicholson – Bekkedahl/7; Docket UE 335, CUB/200, Gehrke – Jenks/25.

¹⁰¹ Order No. 05-1070, at 1.

¹⁰² Cf. Order No. 07-049 at 19 (noting, in its analysis of scenario events, that “the measure of normal risk . . . should be contextual, reflecting the pertinent range of risk, and considering whether the [] event is isolated, or combined with another [] event or other extenuating circumstances.”).

¹⁰³ Staff/100, Moore/9, 11-12, 14-15 (arguing for somewhere in the range of 50 to 250 basis points); AWEC/100, Hellman/13-14 (arguing for 100 basis points based on the amount established for outages at the

1 in restoring power after a major storm. This is evidenced by the Commission’s decision in
2 docket UM 1634 authorizing deferral of PacifiCorp’s storm response costs without reference
3 to deadbands of any kind, let alone net power cost deadbands.¹⁰⁴ Furthermore, even Staff
4 “acknowledges that the threshold for the absorption of storm costs may not necessarily be as
5 high as it has been for [net power costs].”¹⁰⁵

6 The Commission has observed that power costs are a unique category of deferrals that
7 create “controversy and uncertainty.”¹⁰⁶ The Commission has never imported deadbands
8 from net power cost deferrals to other deferrals, including storm-related deferrals, and doing
9 so would be inconsistent with the flexible, case-by-case approach established in docket UM
10 1147.

11 In the alternative, AWEC argues that the Commission should impose the equivalent
12 of a deadband that is two standard deviations from average storm costs.¹⁰⁷ AWEC
13 miscalculates and overstates this threshold.¹⁰⁸ Even as corrected, however, this proposal
14 would effectively impose a uniform disallowance on prudent costs for major storm
15 restoration without allowing PGE an opportunity for full cost recovery. This undermines the
16 Commission’s traditional policy prioritizing safety and reliability in extreme weather events.

17 **d. Allowing PGE the Opportunity to Recover Prudently Incurred 2017 Storm**
18 **Restoration Costs through Deferred Accounting Will Not Result in Customers**
19 **“Double Paying” for those Costs.**

20 Staff and AWEC argue that if the Commission authorizes deferral accounting, PGE
21 would receive a windfall because customers would allegedly be “double paying” through a
22 combination of deferred 2017 costs and the annual accrual amount going forward.¹⁰⁹ Staff
23 makes this assertion apparently based on the fact that the ten-year rolling average has been

Boardman plant in Order No. 07-049). *See* CUB/100, Gehrke/5, 7-8 (arguing 36 basis points on the Company’s ROE” is “far less . . . than a normal deferral”).

¹⁰⁴ *See generally* Order No. 12-489.

¹⁰⁵ Staff/100, Moore/11.

¹⁰⁶ Order No. 05-1070, at 10.

¹⁰⁷ *See* AWEC/100, Hellman/2-3, 16-20.

¹⁰⁸ PGE/200, Nicholson – Bekkendahl – Tooman/6-7.

¹⁰⁹ Staff/100, Moore/17. *See* AWEC/100, Hellman/22.

1 updated for purposes of calculating the annual accrual amount, such that it now reflects 2017
2 storm response costs along with storm response costs from the nine preceding years.¹¹⁰ This
3 double-paying allegation is incorrect and reflects a fundamental misunderstanding of how the
4 accrual balance works.

5 First, unlike power costs, which, within the deadbands, can inure to the benefit of
6 customers in higher power cost years and conversely to the benefit of shareholders in lower
7 power cost years, storm costs never inure to the benefit of shareholders.¹¹¹ This is because
8 the storm accrual is earmarked for storm costs alone.¹¹² In less stormy years, when the
9 annual accrual amount exceeds storm costs for the year, the storm accrual balance simply
10 grows, for use toward storm costs in future years. Those “savings” are not accessible to PGE
11 for other purposes and do not contribute to shareholder earnings. Rather, the accrual
12 functions more like a customers’ savings account for the next rainy day.¹¹³

13 Second, the annual accrual amount incorporated in rates is not retroactively paying
14 for actual storm costs; it is a rough proxy of estimated storm costs for the year in which the
15 rates are collected from customers.¹¹⁴ Thus, while the annual accrual has increased, and this
16 increase reflects that actual storm response costs have been higher in recent years, accruals in
17 2018, 2019, 2020, and so on, are not paying for the actual storm costs that were incurred in
18 2017 or any other prior years.

19 Third, as described above, in years when storm costs exceed the storm accrual
20 balance, as occurred in 2016 and 2017,¹¹⁵ the Company is left making up the difference since
21 it is unable to recover prudently-incurred storm response costs exceeding the accrual balance
22 (absent a deferral). PGE’s witnesses analyzed historical storm activity over the last quarter

¹¹⁰ Staff/100, Moore/17.

¹¹¹ See PGE/200, Nicholson – Bekkedahl – Tooman/15.

¹¹² PGE/100, Nicholson – Bekkedahl/9.

¹¹³ See PGE/100, Nicholson – Bekkedahl/9.

¹¹⁴ See PGE/100, Nicholson – Bekkedahl/6-7; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/7.

¹¹⁵ Docket UE 319, PGE/800, Nicholson – Bekkedahl/27; PGE/100, Nicholson – Bekkedahl/4, 16.

1 century and determined that in most years when major storms occurred, the Company would
2 have been left with a shortfall; that is, storm costs would have exceeded the annual accrual
3 for that year and any carry forward balance as well.¹¹⁶ Thus, the increased annual accrual
4 amount reflecting higher storm costs in 2017 and other recent years merely helps lessen the
5 gap between actual storm costs and the accrual balance in future stormy years.

6 **C. The Commission Should Address Correction of the Major Storm Accrual in**
7 **Rates Consistently with the Commission’s Approach to PGE’s 2017 Storm**
8 **Deferral.**

9 PGE acknowledges that the 10-year average for Level III storms now included in
10 base rates is overstated by \$100,000.¹¹⁷ In response to the Commission’s Bench Request,
11 PGE explained two potential methods for addressing this overstatement. The first is to
12 simply leave the amount in the storm accrual until the next general rate case when the accrual
13 is reset. Given the relatively small amount involved and the fact that the amount is
14 earmarked for storm restoration and must be carried over for customers’ benefit if unused,
15 there is no risk that the \$100,000 will be diverted to the benefit of shareholders.

16 The second approach is a deferral. The most straightforward approach would be to
17 simply offset the amount allowed for deferral in this case by the \$100,000 (this is what PGE
18 referred to as Deferral Method 2 – Offset processing). Alternatively, PGE would also
19 support recording the amount to its docket UM 1147 residual balancing account (described as
20 Deferral Method – Minimal Processing).

21 The \$100,000 overstatement in the accrual represents approximately 1 percent of the
22 \$8 million in restoration costs covered by PGE’s 2017 storm deferral. The Commission
23 should approach the \$100,000 overstatement consistently with its treatment of PGE’s
24 deferral. If the deferral is allowed, an offset or deferral for the \$100,000 overstatement
25 seems appropriate. If the Commission accepts the parties’ arguments that the storm

¹¹⁶ PGE/100, Nicholson – Bekkedahl/15; Docket UE 319, PGE/800, Nicholson – Bekkedahl/27-28; Docket UE 335, PGE/2100, Nicholson – Bekkedahl/10-11; Docket UE 335, PGE/2700, Nicholson – Bekkedahl/6, 7.

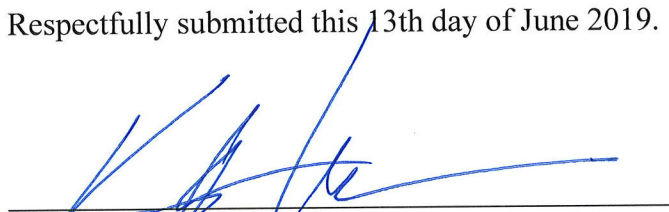
¹¹⁷ PGE/200, Nicholson – Bekkedahl/19.

1 restoration costs are too insubstantial for deferral, however, then it appears inconsistent to
2 require deferral of an amount that is far less.

IV. CONCLUSION

3 PGE respectfully requests that the Commission approve its application for deferred
4 accounting of its 2017 storm deferral costs. This would allow PGE to recover its excess
5 2017 storm restoration costs of \$8 million, amortized over a one-year period, for a one-time
6 rate increase of 0.44 percent.

Respectfully submitted this 13th day of June 2019.



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