ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 27, 2018

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __**January 1, 2018**__

DATE: March 19, 2018

TO: Public Utility Commission

FROM: Mitchell Moore mpm

THROUGH: Jason Eisdorfer and John Crider JE JC

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1294(11)) Requests reauthorization to defer annual Net Power Cost Variances.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve PGE's Application for Reauthorization to defer annual Net Variable Power Cost Variance for the 12-month period beginning January 1, 2018.

DISCUSSION:

Issue

Whether the Commission should approve PGE's request for reauthorization to defer certain annual net variable power cost variances for 12-months beginning January 1, 2018, so that the amounts are subject to recovery under PGE's Power Cost Adjustment Mechanism.

Applicable Rule or Law

PGE submitted its deferral application on December 13, 2017, pursuant to ORS 757.259 and OAR 860-027-0300. ORS 757.259 authorizes the Commission to allow utilities to defer utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities.

Analysis

Background

In Order No. 07-015, the Commission approved an annual Power Cost Adjustment Mechanism (PCAM) for PGE. Under PGE's Schedule 125, PGE is authorized to change its rates each January 1 based on updated estimates of net variable power costs for the upcoming year. Under Schedule 126, PGE must maintain an account to capture the annual difference between actual variable power costs and the estimated costs that are collected from customers through PGE's Schedule 125. The annual net variance is subject to recovery or refund after application of a sharing mechanism and earnings test. PGE must have the Commission's approval to defer the variances under ORS 757.259. Deferral of net variable power cost variances (PCV) was originally granted by the Commission in Order No. 07-050 and has been annually reauthorized, most recently by Order No. 17-107, which authorized a 12-month deferral effective January 1, 2017.

PGE seeks reauthorization of deferred accounting treatment for the PCV from January 1, 2018 through December 31, 2018. Staff has reviewed the application and relevant laws and orders. Staff finds that PGE has submitted the information required in an application under ORS 757.279 and OAR 860-027-0300. Staff's analysis of specific aspects of the application is provided below.

Description of Amounts

The amount to be deferred will be calculated based on PGE's Schedule 126, which requires PGE to capture the annual difference between actual net variable power costs and the costs that are collected from customers through PGE's Schedule 125.

Reason for Deferral

Staff agrees that the PCV deferral will minimize the frequency of rate changes and more appropriately match the costs borne by, and the benefits received by, ratepayers consistent with the grounds for authorizing a deferral under ORS 757.259(2)(e). Due to the difference between the projected power costs in rates and the actual power costs, the use of deferred accounting is necessary to accurately capture the costs for later incorporation in rates.

Proposed Accounting

In its application, PGE proposes to record the deferred amount in FERC Account 182.3 (Regulatory Assets) and credit FERC Account 555 (Purchased Power) if there is an amount to collect from customers. If there is a refund due to customers, PGE will record the deferred amount in FERC 229 (Accumulated Provision for Rate Refunds), debiting FERC 449.1 (Provision for Rate Refunds). If the Commission did not approve reauthorization in this instance, PGE would not calculate a PCV and all associated revenue and expense would remain booked to the appropriate FERC accounts.

Estimate of Amounts
In its application, PGE states it cannot provide an estimate of the amount that will be deferred because it is dependent on actual 2017 information that is currently unknown. PGE also requests that the amount be allowed to accrue interest on the unamortized balance at a rate equal to its recently authorized weighted average cost of capital in Docket No. UE 294, 7.510 percent. Use of the authorized rate of return in Docket No. UE 294 for deferred amounts prior to amortization is consistent with the methodology approved by the Commission in Docket No. UM 1147.

Information Related to Future Amortization

- Earnings review – Schedule 126 requires an earnings review.
- Prudence Review – A prudence review is a required component of an earnings review, and should include a verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Sharing is subject to the terms of Schedule 126.
- Rate Spread/Design – The PCV amortization amount will be spread on an equal cents per kWh basis, as specified in Schedule 126.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year. Because PGE is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit. Schedule 126 specifies the six percent limit.

<u>Conclusion</u>

The rationale for this deferral is still valid, and the Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300. For these reasons, Staff recommends PGE's application be approved.

PROPOSED COMMISSION MOTION:

Approve PGE's Application for Reauthorization to defer annual Net Variable Power Cost Variance for the 12-month period beginning January 1, 2017.