

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 12, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2016

DATE: January 4, 2016

TO: Public Utility Commission

FROM: Mitchell Moore *mm*

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

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1294(9)) Requests reauthorization to defer annual Net Power Cost Variances.

STAFF RECOMMENDATION:

Staff recommends that Portland General Electric's (PGE's or Company's) application for reauthorization to use deferred accounting for certain annual net variable power cost variances be approved.

ISSUE:

Should the Commission reauthorize PGE's use of deferred accounting for variances in net power costs effective January 1, 2016 through December 31, 2016.

APPLICABLE LAWS AND ORDERS:

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

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

ORS 757.259(2)(e).

In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

In Order No. 07-015, the Commission approved an annual Power Cost Adjustment Mechanism (PCAM) for PGE. PGE's Schedule 126 captures the annual difference between actual net variable power costs and the forecast costs that are collected from customers through PGE's Schedule 125. 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. 15-058, which authorized a 12-month deferral effective January 1, 2015.

In Order No. 05-1070, Docket No. UM 1147, the Commission determined that interest may accrue interest on deferred accounts at the authorized rate of return until amortization. Subsequent orders in Docket No. UM 1147 establish the rate during amortization. See Order Nos. 08-263, 10-279.

ANALYSIS:

PGE has applied for reauthorization of deferred accounting treatment for the PCV from January 1, 2016 through December 31, 2016. 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 captures the annual difference between actual net variable power costs and the forecast 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 forecast 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. Staff finds the proposed accounting if reauthorization is approved to be appropriate.

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 2016 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%. Use of the authorized rate of return in Docket No. UE 294 for amounts prior to amortization is consistent with the methodology approved by the Commission in Docket No. UM 1147. See Order No. 15-356 at 6, PGE's Revenue Requirement Final Update and Final MONET Update (November 16, 2015 and December 31, 2015).

Any necessary amortization will be accomplished by a change to Schedule 125 during a subsequent proceeding.

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.

CONCLUSION:

As PGE's application meets the requirements of ORS 757.259 and OAR 860-027-0300 and the reasons for the deferral remain valid, Staff recommends the Commission approve the reauthorization application.

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, 2016.