

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 18, 2018**

REGULAR CONSENT EFFECTIVE DATE November 8, 2018

DATE: December 11, 2018

TO: Public Utility Commission

FROM: ^{LS} Lauren Slawsky and ^{CM} Caroline Moore

THROUGH: ^{apm} Jason Eisdorfer and ^{JTB} JP Batmale

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1977) Application for Deferred Accounting Treatment of Start-Up Costs Associated with the Community Solar Program Implementation.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Portland General Electric's application for deferred accounting of operation and maintenance (O&M) start-up costs related to the Oregon Community Solar Program (CSP) for the 12-month period beginning November 8, 2018.

DISCUSSION:

Issue

Whether the Commission should approve Portland General Electric's application to defer for later rate-making treatment of O&M start-up costs related to the development of the CSP.

Applicable Rule or Law

Portland General Electric (PGE) submits this deferral application in accordance with ORS 757.259 and OAR 860-027-0300 seeking an order from the Oregon Public Utility Commission (OPUC) that authorizes the company to defer start-up costs related to the CSP in such a way that will support an automatic adjustment clause rate schedule with an associated balancing account mechanism to track the ongoing costs and recovery amounts for the O&M start-up costs of the program. ORS 757.259 authorizes the Commission to allow a utility to defer expenses or revenues for later recovery in rates in

order to minimize the frequency of rate changes or to appropriately match the costs and benefits to customers. OAR 860-027-0300 sets requirements for deferral applications for energy and large telecommunications utilities.

ORS 757.386 and OAR 860-088-0160 permit utilities to recover all start-up costs prudently incurred during the development or modification of the CSP in electric company rates. Further, the rules specify that these costs include both:

- Start-up Program Administrator (PA) and Low Income Facilitator (LIF) costs; and
- Utilities' prudently-incurred start-up costs.¹

Analysis

Background

The Community Solar Program, implemented in Senate Bill (SB) 1547 and codified at ORS 757.386, establishes a program for the procurement of electricity from community solar projects. The Commission's subsequent CSP rules required electric companies to conduct several activities in support of the program, such as entering into a 20-year power purchase agreement with a certified project.

In accordance with SB 1547 Section 22(7)(c) and OAR 860-088-0160 regarding CSP funding, electric utilities can recover start-up costs prudently incurred during the development or modification of the program (start-up phase) through electric utility rates. On-going costs related to the program will be collected from program participants.

Stakeholder Engagement on Cost Recovery

Utilities, stakeholders, and Staff began outlining the process to recover CSP costs at a June 13, 2018 workshop. Along with the other public electric utilities in Oregon, PGE submitted a CSP cost recovery proposal to Staff on August 13, 2018. Staff and stakeholders support PGE's proposal to recover the PA/LIF and other prudently incurred start-up costs with a forward-and-backward looking automatic adjustment clause. Staff and the Citizens' Utility Board (CUB) agree that non-capital start-up costs will require thorough scrutiny to ensure that only incremental, prudently incurred costs are recovered from ratepayers through the automatic adjustment clause. Staff plans to engage regularly with PGE in reviewing any projected and actual CSP start-up costs.

For the period in which these start-up costs are incurred, the utilities can update the tariff annually to take into account an updated forecast of PA/LIF start-up costs and to defer and recover or refund any variance between forecasted and actual costs. While Staff understands forecasting these costs is challenging given the complexity of the

¹ OAR 860-088-0160(1).

CSP, thorough scrutiny is still required to ensure that only incremental and prudently incurred costs are recovered from ratepayers through the automatic adjustment clause. Staff and CUB did not agree with any deferred recovery of capital investment associated with the CSP.

On October 22, 2018, parties participated in a workshop to work through the unresolved issues related to the utilities' proposals for recovery of both PA/LIF and utility start-up costs. A key takeaway from the workshop included general agreement on how the utilities should recover non-capital PA/LIF start-up costs, though utilities could not provide detailed information about the magnitude of anticipated utility start-up costs. Idaho Power Company expects its billing system will be able to handle the requirements without expensive upgrades. Portland General Electric and PacifiCorp were not able to offer that supposition. An additional key takeaway from the workshop was that any utility deferral of capital utility start-up costs should follow the guidance provided in Docket No. UM 1909 Investigation of the Scope of the Commission's Authority to Defer Capital Costs.² The utilities began working with Staff to address the implications of Order No. 18-423 and to develop recommendations needed to implement the Commission's decision. The utilities are reviewing the Commission's guidance and developing new proposed processes for the recovery of capital utility start-up costs.

Description of Amounts

As defined in OAR 860-088-0160(1), start-up costs include costs associated with the Program Administrator (PA) and Low Income Facilitator (LIF), and each electric utility's prudently incurred start-up costs associated with implementing the CSP. These costs include, but are not limited to, costs associated with customer account information transfer and on-bill crediting and payment, but exclude any costs associated with the electric utility developing a CSP solar project. PGE's deferral application includes expected O&M start-up costs associated with the Program Administrator as selected through OPUC Staff's Request for Proposal, O&M costs related to the Low Income Facilitator, modifications to PGE's information technology/billing systems, legal and other professional fees, costs related to regulatory compliance, and any other O&M start-up costs associated with the implementation of the CSP that PGE may incur.

Reason for Deferral

PGE seeks deferred accounting treatment of the O&M start-up costs associated with the PA, LIF, and the implementation of the CSP pursuant to ORS 757.259(2)(e). The deferral is necessary as SB 1547 requires the implementation of the program and allows utility recovery of all prudently-incurred CSP start-up costs. The associated O&M

² On October 29, 2018, the Commission issued Order No. 18-423 in Docket No. UM 1909, which concluded that ORS 757.259(2)(e) provides the Commission no authority to allow deferrals of any costs related to capital investments.

start-up costs are not currently in base rates and granting this application would minimize the frequency of rate changes and appropriately match the costs and benefits to customers.

Proposed Accounting

PGE proposes to record O&M start-up costs associated with the CSP as a regulatory asset in FERC account 182.3 (Other Regulatory Assets), with a credit to FERC account 456 (Other Revenue). In the absence of a deferred accounting order from the Commission, PGE would record costs to various FERC expense accounts. The use of an automatic adjustment clause will allow recovery of PA and LIF O&M start-up costs as soon as the cost data is approved by the Commission. Further, the automatic adjustment clause will provide the opportunity to review utility O&M start-up costs for prudence prior to recovery. The balancing account will provide the ability to track and true-up the various O&M amounts associated with the CSP start-up.

Estimate of Amounts

At this time, PGE cannot accurately estimate the total costs to be incurred for supporting the CSP because the processes and procedures for the implementation of the program are currently under development by the Commission. PGE anticipates that there will be utility start-up program responsibilities and associated costs identified in the program implementation manual, though it is yet to be developed.

Information Related to Future Amortization

- Earnings Review – PGE proposes that cost recovery associated with the CSP start-up not be subject to an earnings review as it would be subject to an automatic adjustment clause.
- Prudence Review – PGE intends to submit a report supporting CSP incurred start-up costs to Staff for prudence review prior to the filing to adjust tariff prices. Additionally, PGE will rely on Staff for direction on start-up costs of the PA and LIF since they are third-party providers. The prudence review should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing Percentages – All prudently incurred costs are to be recoverable by PGE with no sharing mechanism.
- Rate Spread/Design – Applicable costs will be allocated to each schedule using the applicable schedule's forecasted energy on the basis of an equal percent generation revenue applied on a cents-per-kilowatt hour basis.
- Three Percent Test (ORS 757.259(7) and (8)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. This test limits 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. The amortization of the CSP start-up costs will be subject to the three percent test.

Conclusion

After engaging with the utilities, Staff, and stakeholders, general agreement has been reached regarding deferred recovery of PA/LIF start-up costs and non-capital utility start-up costs related to the CSP. Staff concludes PGE's request to defer the O&M start-up costs associated with the CSP meets the requirements of ORS 757.259 and OAR 860-027-0300, and should be approved by the Commission.

PROPOSED COMMISSION MOTION:

Approve PGE's application to defer O&M start-up costs associated with the CSP start-up for the 12-month period beginning November 8, 2018.