ITEM NO. 5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 17, 2019

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **December 7, 2018**

DATE: January 8, 2019

TO: Public Utility Commission

FROM: Mitchell Moore MPM

JC for JE JC

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1986) Request for Authorization to use Deferred Accounting to support PGE's use of balancing accounts.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric's (PGE or Company) request to authorize deferral of the variance between revenues and expenses associated with the Multnomah County Business Income Tax (MCBIT) for the 12-month period beginning December 7, 2018.[1]

Staff recommends the Commission approve PGE's request to authorize deferral of the variance between revenues and expenses associated with Energy Efficiency (EE) Customer Service for the 12 month period beginning December 7, 2018.

Staff recommends that the Commission deny PGE's request for a deferral of the Major Maintenance Accruals (MMAs) in this docket, as the Company already has a deferral application for these amounts, which is docketed as OPUC Docket UM 1915.[2]

Finally, Staff recommends that the Commission deny PGE's request for a deferral of the RPA Credit, as a deferral is not necessary in order to facilitate the current ratemaking treatment for the balancing account already in place.

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[1] PGE filed this deferral at the request of Staff due to a change in understanding regarding the need for deferrals underlying certain types of balancing accounts.

[2] OPUC Docket No. UM 1915 – the Commission approved PGE's Initial Deferral at the May 8, 2018 public meeting in Order No. 18-517.

DISCUSSION

Issue:

Whether the Commission should approve PGE's request for authorization to use deferred accounting to support PGE's use of balancing accounts for the MCBIT, RPA Exchange Credit, MMA's, and EE Customer Service.

Applicable law:

PGE filed its application in accordance with 757.259 and OAR 860-027-0300. ORS 757.259(2)(e) authorizes the Commission to allow a utility to defer, for later ratemaking treatment, expenses or revenues in order to minimize frequency of rate changes or to match appropriately the costs borne by and benefits received by customers. OAR 860-027-0300 sets forth the requirements for applications to defer.

The Northwest Power Act, Section 839c(c)(3) provides that "[t]he cost benefits, as specified in contracts with the Administrator, of any purchase and exchange sale referred to in paragraph (1) of this subsection which are attributable to any electric utility's residential load within a State shall be passed through directly to such utility's residential loads within such State, except that a State which lies partially within and partially without the region may require that such cost benefits be distributed among all of the utility's residential loads in that State."

Analysis:

Background:
In the Spring of 2018, Staff had determined that there were a number of balancing accounts held by various utilities that rolled positive and negative balances forward to set future rates, and that balancing accounts that incorporate past costs and revenues into future rates may require a deferral. Since then, Staff has worked with the utilities to identify such accounts and to file deferral applications to support these accounts.

PGE has identified several balancing accounts that it believes require deferred accounting approval based on Staff's position on balancing accounts used to set rates with carry-forward balances.

Accordingly, PGE made this filing on December 7, 2018, requesting approval for deferred accounting for four separate balancing accounts. In its deferral application PGE states that the purpose of the deferral is to address occasions when there is a positive (debit) balance that is rolled forward within these balancing accounts. Staff would clarify that the deferral is to address *any* variance – positive or negative – between costs incurred and revenues collected.

Further, PGE proposes to aggregate the requirement of Order No. 17-511, which requires the Company to file an annual deferral associated with its MMAs, with other unrelated deferrals for current balancing accounts. This would avoid the need for the Company to file separate deferral applications to support each of the balancing accounts.

While Staff is sympathetic to the additional paperwork and process that accompany separate deferral filings, Staff believes that the Commission is required to evaluate each deferral application on its own merits, and apply numerous criteria from statute, rules and previous Commission Orders to determine the validity and appropriateness of each request. Condensing multiple types of accounts into a single deferral mechanism would make the process of evaluating and tracking deferral accounts too cumbersome. In the case of already established deferrals, such as the MMA deferral, Staff can find no benefit; to the contrary, condensing deferrals for multiple balancing accounts reduces transparency. Therefore, Staff requests that the Commission direct PGE to file separate deferral applications for each different *type* of balancing account.

<u>MCBIT deferral request</u>

The Company maintains a balancing account to accrue any difference between the Company's actual MCBIT expense and what is collected from customers. Each year, the Company makes an advice filing to adjust the rate to reflect the Company's projections of the MCBIT tax expense for the coming year, as well as incorporating any residual balance from the previous year.

The Company determines the MCBIT rate by forecasting its expected MCBIT tax liability for the next calendar year and adding this forecasted amount to the actual over- or under-collection of the prior year's MCBIT taxes. The total amount is divided by the forecasted revenues for Multnomah County to determine the final MCBIT rate.

Proposed Accounting:
PGE proposes to account for the expenses and revenues associated with the MCBIT by recording the deferral in FERC Account 242, (Current Regulatory Liability). MCBIT payments are debited to FERC Account 242 and credited to FERC Account 407.4 (Regulatory Credit). The amortization of MCBIT is credited to Account 242 and debited to account 407.4. Interest will accrue on the balance at the approved blended treasury rate.

Estimated Deferrals in Authorization Period:
PGE did not provide an estimate of the amounts to be deferred.

Information Related to Future Amortization:

- Earnings review – An earnings review is required prior to amortization, pursuant to ORS 757.259(5).
- Prudence Review – A prudence review is required prior to amortization and should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – One hundred percent of the deferred balance is subject to utility recovery, pending a prudence review.
- Rate Spread/Design – The costs are allocated among all Multnomah County customers on an equal cents per kilowatt basis.
- 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.

<u>MMA Deferral Request</u>

PGE's MMA balancing account is a combination of an accrual and a balancing account wherein PGE develops a forecast of projected expenses over a five-year rolling period and establishes an accrual amount that levelizes those costs. Expenses, when incurred, are then booked to the MMA balancing account, offsetting the amounts collected under the annual accrual. This process is intended to result in an expected account balance of zero by the end of the five-year rolling period. In the next forecast of expected expenses, the current balance of the MMA balancing account is rolled forward within the balancing account and into the calculation of the proposed accrual.

As stated above, PGE already has a deferral underlying this account, which is docketed as UM 1915. PGE's initial request was approved by the Commission in Order 18-517, and PGE filed for reauthorization of this deferral on December 3, 2018. Staff does not believe that it is either more efficient or more transparent to defer MMA funds pursuant to this deferral, and therefore recommends that the Commission continue to review MMA deferral requests in docket UM 1915.

EE Customer Service Deferral Request

PGE established a balancing account to record the differences between the actual fully loaded qualifying expenses and the revenues collected under Schedule 110 adjusted for allowance for uncollectibles, franchise fees, and other revenue sensitive costs.

Proposed Accounting:
EE Customer Service accounting treatment: the balancing account is recorded in either FERC 182.3 (Regulatory Assets), when qualified expenses incurred exceed revenue collected from customers, or FERC Account 254 (Regulatory Liabilities) when qualified expenses incurred are less than revenue collected from customers. PGE amortizes the balancing account based on the rate collected from customers through Schedule 110, adjusted by revenue sensitive costs.

Estimated Deferrals in Authorization Period:
PGE did not provide an estimate of the amounts to be deferred.

Information Related to Future Amortization:

- Earnings review – An earnings review is required prior to amortization, pursuant to ORS 757.259(5).
- Prudence Review – A prudence review is required prior to amortization and should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – One hundred percent of the deferred balance is subject to utility recovery, pending a prudence review.
- Rate Spread/Design – In accordance with current ratemaking treatment
- 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.

Residential Power Act Exchange Credit

With regard to the Company's deferred application request for a deferral for the RPA Credit, Staff had previously advised the utilities, including PGE, that a deferral is not required to support the RPA Credit balancing account. Language in the Northwest

Power Act requires that costs and benefits of purchase and exchange sales be passed through directly to each utility's residential load. Therefore, there is an independent statutory basis for the treatment of this item, which is an exception to the requirement that a deferral be filed.

PGE has stated that it would prefer the Commission to make this determination, and therefore did not withdraw this request from its Application.

Conclusion

With regard to the MCBIT accounts, the Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300, but finds that the Company should update its deferral applications once estimates of deferred amounts are known. Staff received a verbal estimate from the Company, but requests that the Company provide written estimates in future deferral applications.

The EE Customer Service accounts require a deferral, but should be docketed separately for the reasons discussed above.

With regard to the other balancing accounts included in this application, Staff concludes that:

- The MMA accounts deferral is already provided for in Docket No. UM 1915, and the Company should file its reauthorization requests in this docket; and
- The RPA Credit accounts have an independent statutory basis in the Northwest Power Act for rate treatment, and therefore is an exception to the deferral requirement.

PROPOSED COMMISSION MOTION:

Approve Portland General Electric's (PGE or Company) request to authorize deferral of the variance between revenues and expenses associated with the Multnomah County Business Income Tax (MCBIT) for the 12-month period beginning December 7, 2018.

Approve PGE's request to authorize deferral of the variance between revenues and expenses associated with Energy Efficiency (EE) Customer Service for the 12-month period beginning December 7, 2018, and direct that this deferral be docketed separately (beginning with this deferral), and that subsequent requests for reauthorization be filed in the respective docket.

Deny PGE's request to defer Major Maintenance Accruals (MMAs) in this docket, as the Company already has a deferral application for these amounts which is docketed as OPUC Docket UM 1915.[3]

Deny PGE's request for a deferral of the RPA Credit, as a deferral is not necessary in order to facilitate the current ratemaking treatment for the balancing account already in place.

PGE UM 1986 Deferral to Support PGE's use of Bal Accts

[3] OPUC Docket No. UM 1915 – the Commission approved PGE's Initial Deferral at the May 8, 2018 public meeting in Order No. 18-517.