ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 12, 2019

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **January 1, 2019**

DATE: February 26, 2019

TO: Public Utility Commission

FROM: Sabrinna Soldavini

THROUGH: Jason Eisdorfer, John Crider, and Marianne Gardner

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1988) Application for deferred accounting of costs associated with the difference between actual and forecasted qualifying facilities commercial operation dates.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Portland General Electric's (PGE or Company) application for the authorization to defer differences between actual and forecasted Qualifying Facilities (QFs) costs for the 12-month period beginning January 1, 2019.

DISCUSSION:

Issue

Whether the Commission should approve PGE's application requesting authorization to defer for later ratemaking purposes the annual difference between actual and forecasted QFs costs, in accordance with the methodology agreed to in Commission Order No. 18-405.

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into 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 set forth the requirements for the contents of deferred accounting applications. Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings.

Analysis

Background
In UE 335, PGE's most recent rate case, the Commission issued Order No. 18-304 adopting the stipulation of the parties related to the Company's 2019 proposed Net Variable Power Costs (NVPC). As part of the stipulation, the parties agreed to a method for tracking and truing up the scheduled and actual on-line dates for QFs and the impact on PGE's NVPC. Term three of the partial stipulation acknowledges that PGE will update QF Commercial Operation Dates (COD) in the final update in each year's power cost case. Variations in a QF's forecasted and actual costs related to CODs may arise for a number of reasons, including timing constraints related to permitting or constraints with third party transmission.

Description of Expense
Each year, in its NVPC forecast, the Company includes forecasted costs of purchasing the output of new QFs based on their scheduled CODs. If a QF comes on-line before or after its scheduled COD there are deviations in actual versus forecasted costs of purchases from the QF. The amount subject to deferral is the cost variation resulting from new QFs' actual CODs and their scheduled CODs. If approved, the Company proposes to submit an annual request for reauthorization of this deferral as CODs are modeled in each year's NVPC.

Reason for Deferral
Due to fluctuation in actual and forecasted QFs CODs, the accuracy of the forecasted QFs costs included in the Company's annual NVPC forecast may vary. In order to minimize the volatility of the Company's revenues and the frequency of rate changes, PGE's QFs True-Up Mechanism was agreed to by the stipulating parties in UE 335 and approved in Commission Order No. 18-405. The difference between actual QFs costs and forecasted QFs costs included in the Company's NVPC forecast will result in either

surcharges or rebates to customers and would be included in the Company's next NVPC forecast.

For 2019, the QF tracking mechanism, as described in PGE's filing, operates as follows:

- During 2018:
    - PGE included the initial 2019 NVPC forecast all QFs that were expected to achieve COD in 2019 or earlier as identified by the PPA seller.
    - PGE updated its forecast with any known changes through the final NVPC update filed November 15.
    - PGE filed the application herein to defer the difference between actual and forecasted QFs costs.
- During 2019:
    - PGE will track QF CODs to record all actual online dates.
    - PGE will also record any QF CODs not included within the 2019 NVPC forecast.
- During 2020:
    - During Q1 of 2020, PGE will re-run the final 2019 NVPC MONET forecast used to set 2019 customer prices, replacing the estimated 2019 QF CODs with the actual CODs recorded during 2019.
    - PGE will record any NVPC difference between the two model runs and place all amounts into a balancing account where they will earn interest at the modified blended treasury rate.
    - PGE will then include any recorder amounts (collections or refunds) for 2019 into the April 1, 2020 forecast of PGE's 2021 NVPC.

Proposed Accounting

In its application, the Company proposes to record the deferred amount in FERC Account 182.3 (Regulatory Assets), with credits to be recorded in FERC Account 555 (Purchased Power). For amounts to be refunded, PGE proposes to record the deferred amount in FERC Account 229 (Accumulated Provision for Rate Refunds), debiting FERC Account 449.1 (Provision for Rate Refunds). In the absence of deferral approval, PGE would continue record QF expenses to the appropriate FERC accounts.

Estimated Deferrals in Authorization Period

The actual amount subject to deferral is dependent on the difference between actual QF costs compared with the QF costs included in the Company's NVPC forecast used in PGE's Automatic Update Tariff to establish base rates. As the amount subject to deferral is unknown, the company does not provide an estimate for the proposed reauthorization period.

Information Related to Future Amortization

- Earnings Review – There is no earnings review because any deferred amounts are subject to recovery through an automatic adjustment mechanism.
- Prudence Review – Prior to amortization, a prudence review will be conducted, and it should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – The annual earnings review does not include a sharing mechanism.
- Rate Spread/Design – As specified in Schedule 125, the difference between actual and forecasted QFs costs will be recovered through rates on an equal percent of generation revenue applied on cents per kWh basis.
- Three Percent Test (ORS 757.259(6)) – The deferred costs will be subject to the three percent test, which measures the annual, 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>Conclusion</u>

Based on Staff's review of PGE's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application for deferred accounting meets the requirements related of the QFs mechanism adopted in Order No. 18-405.

PROPOSED COMMISSION MOTION:

Approve Portland General Electric's (PGE or Company) application for the authorization to defer differences between actual and forecasted Qualifying Facilities (QFs) costs for the 12-month period beginning January 1, 2019.