



**Portland General Electric Company**  
121 SW Salmon Street • 1WTC0306 • Portland, OR 97204  
portlandgeneral.com

October 24, 2022

***Via Electronic Filing***

Public Utility Commission of Oregon  
Attention: Filing Center  
P.O. Box 1088  
Salem, OR 97308-1088

Re: UE 410 – In the Matter of Portland General Electric Company, Application Regarding Amortization of Boardman Deferral

Dear Filing Center:

Attached for filing in the above referenced matter please find the following:

- Reply Testimony of
  - Chris Liddle, Jaki Ferchland (PGE / 200) and Exhibits 201

Work papers will be submitted to [puc.workpapers@puc.oregon.gov](mailto:puc.workpapers@puc.oregon.gov).

Sincerely,

*/s/ Jaki Ferchland*

Jaki Ferchland  
Manager, Rates and Regulatory Affairs

**BEFORE THE PUBLIC UTILITY COMMISSION**  
**OF THE STATE OF OREGON**

**UE 410**  
**PGE Amortization of Deferred Amounts for 2021**  
**Boardman Revenue Requirement**

**PORTLAND GENERAL ELECTRIC**

**Reply Testimony**

**Direct Testimony of:**

*Christopher Liddle, PGE*

*Jaki Ferchland, PGE*

**October 24, 2022**

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## I. Introduction

1 **Q. Please state your names and positions with Portland General Electric (PGE).**

2 A. My name is Chris Liddle. I am the Senior Director, Controller and Assistant Treasurer at PGE.

3 My name is Jaki Ferchland. I am the Manager of Revenue Requirement in Regulatory  
4 Affairs at PGE.

5 Our qualifications were provided in PGE Exhibit 100.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of our testimony is to respond to the opening testimony of the Public Utility  
8 Commission of Oregon (Commission or OPUC) Staff (Staff) and the Alliance of Western  
9 Energy Consumers (AWEC) (jointly, “Parties”).

10 **Q. How is your testimony organized?**

11 A. In the next section we address the issue of rolling 12-month earnings test periods and  
12 demonstrate that they are relevant and would result in no refund of the Boardman deferral.  
13 We then discuss the reasons behind PGE’s lower than normal operations and maintenance  
14 (O&M) spending in 2020 and its impact on PGE’s regulated earnings. Following that, we  
15 respond to concerns that PGE has made incorrect assumptions in its direct testimony and 2020  
16 Results of Operations Report (ROO) and that consequently, the entire 2020 Boardman deferral  
17 amount should therefore be refunded to customers. Finally, we provide our summary and  
18 conclusions.

19 **Q. Please summarize your position.**

20 A. It is our position that a holistic perspective should be taken when considering the appropriate  
21 outcome of an earnings review for any utility. Multiple perspectives demonstrate that PGE  
22 should not refund any amount of the revenue requirement associated with Boardman in 2020.

1 When these perspectives are considered together, it makes it abundantly clear that a refund of  
2 the Boardman revenue requirement for 2020 would be inappropriate.

3 First, we will continue to discuss the results of a rolling 12-month earnings test, which  
4 we maintain is a more appropriate and established method for reviewing a multi-year deferral.  
5 The data in this case is particularly compelling, and we believe it should be considered as a  
6 part of this decision. Second, in our opening testimony we mention that 2020 results are  
7 anomalous, and in this testimony, we explain these anomalies in further detail and show  
8 methods by which adjustments could be made to account for them. Finally, we will provide  
9 details as to how Staff misinterpreted not only our prior testimony on the creation of the ROO,  
10 but Staff’s own 1992 letter on the principles of preparing a ROO. Finally, we assert that a  
11 deferral deemed to have no earnings test should not drive a refund under the earnings test of  
12 another deferral, and that doing so would result in an unreasonable and unsupportable  
13 outcome.

14 The purpose of an earning review is to evaluate whether the utility could absorb costs or  
15 should be allowed to retain income during a specific period. While Staff’s approach relies on  
16 form over substance as to how the ROO is presented, we believe Staff has misunderstood and  
17 misapplied both the form and substance of how an earnings review should be applied under  
18 these circumstances. The Commission should take a holistic view to evaluate whether PGE  
19 earned a reasonable rate of return during the deferral period and conclude that no refund of  
20 the Boardman deferral for 2020 is warranted.

## II. Rolling 12-Month Test Period

1 **Q. Please restate the alternative earnings review method PGE discussed in opening**  
2 **testimony.**

3 A. In PGE Exhibit 100, we discussed the result and precedence of using a rolling 12-month  
4 earnings test more aligned to and representative of the first 12 months Boardman was no  
5 longer in service. These results are shown below in Table 1 and are available in more detail  
6 in PGE Exhibit 104. As shown, PGE’s earnings test ROE does not exceed 5.93% for any  
7 rolling 12-month period from October 2020 through December 2021, in contrast to the 9.47%  
8 produced by the narrow view of only a 2020 calendar year that includes a full nine months  
9 before the deferral period applicable to Boardman.

**Table 1. Rolling Earnings Test ROE Results**

<b>12-Month Period</b>	<b>Result</b>
Oct 2020 – Sep 2021	5.93%
Nov 2020 – Oct 2021	5.50%
Dec 2020 – Nov 2021	4.99%
Jan 2021 – Dec 2021	5.19%
<b>Average</b>	<b>5.23%</b>

10 **Q. Does PGE believe that the drastic difference in regulated ROEs from one year to the**  
11 **next serves as strong evidence as to why a rolling test is more appropriate for a deferral**  
12 **that spans multiple years?**

13 A. Yes. These results demonstrate the potential for erroneous conclusions based on a calendar  
14 year earnings test applied to deferrals that span multiple years and in particular a deferral that  
15 begins late in a calendar year. PGE’s earnings are unequivocally and unambiguously poor  
16 across any potentially relevant earnings test period.

1 **Q. Is PGE requesting that the Commission revisit and revise their determination in Order**  
2 **No. 22-129 directing PGE to use a calendar year earnings test?**

3 A. While we do not agree with the outcome in Order 22-129 calling for a calendar year earnings  
4 test for a deferral that begins only two and half months prior to the end of that calendar year,  
5 we are not requesting that the Commission revise the order. Doing so would result in PGE's  
6 ability to also collect the \$14 million for the 2020 Labor Day Wildfire and \$2 million for the  
7 COVID-19 pandemic which PGE has already written off as a result of applying the test. We  
8 are not suggesting that those amounts should now be subject to collection. However, PGE is  
9 asking that the facts of this rolling test, now that they are known, be considered within the  
10 *holistic* picture of this earnings review.

11 **Q. We indicated in PGE Exhibit 100 that this data was not provided in UE 394 because the**  
12 **2021 results of operations report had yet to be completed. What other factors led to PGE**  
13 **not proposing the use of a rolling 12-month earnings test in the general rate case (GRC)?**

14 A. In addition to PGE being unable to provide complete 2021 data and results during the UE 394  
15 proceeding because the 2021 FERC Form 1 and 2021 ROO had yet to be filed, PGE was not  
16 expecting nor prepared to fully litigate in the GRC proceeding the issue of an earnings review  
17 period for three separately docketed deferrals unrelated to its GRC filing.

18 **Q. Why was PGE not prepared to fully litigate the issue of an earnings review period in its**  
19 **GRC?**

20 A. We were not anticipating a full litigation with a Commission ruling on an earnings review  
21 period because at the time that AWEC and CUB requested to consolidate the dockets, the  
22 Administrative Law Judge issued a motion denying their request, while leaving open the  
23 opportunity to achieve a settlement on the topic. AWEC and CUB later provided testimony to

1 which PGE objected and while this testimony was ultimately allowed into the record, no  
2 statements were provided that the original order denying the request to consolidate the dockets  
3 had been overturned. As such, PGE believed the testimony on this topic would not result in a  
4 definitive decision by the Commission in the GRC but would rather be used to serve a future  
5 proceeding on the matter.<sup>1, 2</sup>

6 **Q. When are earnings tests for deferrals typically determined?**

7 A. It is most common that the form and structure of an earnings test is proposed as part of the  
8 request for amortization of a deferral. In fact, ORS 757.259(5) states that “amounts shall be  
9 allowed in rates only to the extent authorized by the commission in a proceeding under  
10 ORS 757.210 (Hearing to establish new schedules) to change rates and upon review of the  
11 utility’s earnings *at the time of application to amortize the deferral*” (emphasis added).  
12 Additionally, OAR 860-027-0300(9) specifies “[u]pon request for amortization of a deferred  
13 account the energy or large telecommunications utility must provide the Commission with its  
14 financial results for a 12-month period or for multiple 12-month periods to allow the  
15 Commission to perform an earnings review” (emphasis added). As such, it was reasonable for  
16 PGE to assume that the structure and proposal of an earnings test that is “reasonably  
17 representative of the deferral period”<sup>3</sup> would occur at the time of requesting amortization of  
18 deferred amounts.

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<sup>1</sup> See UE 394, November 10, 2021 *Ruling Denying Motion to Strike*, “Any issues not resolved within this proceeding may be subsequently addressed in their separate dockets.”

<sup>2</sup> Multiple deferrals were included in PacifiCorp’s GRC under Docket No. UE 399 and were consolidated into the docket. See UE 399, April 11, 2022 *Ruling to Consolidate Granted In Part; Denied In Part*

<sup>3</sup> OAR 860-027-0300(9).



1 **Q. At what point was the issue of an earnings test period raised in UE 394?**

2 A. When PGE filed UE 394, the Boardman deferral was not presented as an issue in the docket  
3 and the Commission had not yet approved the deferral. It was approximately three months  
4 following PGE’s initial filing that CUB and AWEC first proposed consolidating the  
5 Boardman deferral docket with UE 394, a position that PGE opposed.<sup>4</sup> As mentioned above,  
6 while the motion to consolidate was denied, CUB and AWEC proceeded to file testimony on  
7 Boardman, which was allowed to remain in the record.

8 It is also important to note that at this point, no party, including CUB and AWEC, had  
9 raised the issue of an earnings test period or any other issue related to an earnings review.  
10 It was not until Staff’s final round of testimony, filed approximately five months after PGE’s  
11 opening testimony, that the issue of earnings review parameters was first raised.

12 **Q. Could PGE have proposed a rolling 12-month earnings test in the GRC Docket No.**  
13 **UE 394?**

14 A. In Docket No. UE 394, all aspects of the major deferrals were introduced into an already  
15 complex proceeding. PGE did mention a rolling test year as an option at oral arguments after  
16 learning there was an interest to begin separate amortizations on a yearly basis. We attempted  
17 to address the expanding and changing positions and issues surrounding the deferrals brought  
18 forward by the parties. These issues included: whether the Boardman deferral should be  
19 authorized, should all three deferrals be consolidated in a separate docket, should all deferrals  
20 be addressed in the GRC docket, what earnings test ROE should be applied to the separate  
21 deferrals, and whether the earnings test ROE issue should even be addressed in the GRC.

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<sup>4</sup> <https://edocs.puc.state.or.us/efdocs/HAE/ue394hae15500.pdf>

1 In addition to the broadening scope of issues related to these three deferrals, PGE was  
2 responding to numerous issues within the context of its original GRC request. This resulted  
3 in PGE having a limited amount of time to respond to a growing set of issues around these  
4 three deferrals, while at the same time litigating numerous other issues within the GRC  
5 proceeding. While we did not consider a rolling 12-month earnings test at the time, in our  
6 final round of testimony we did propose a 2021 calendar year earnings test for all three  
7 deferrals since we thought it would address parties' primary concerns while still meeting the  
8 regulatory requirement to select a period that would reasonably represent the deferral period.<sup>5</sup>

9 PGE had less than three weeks from first being presented with the newly raised issue of  
10 earnings review parameters to respond,<sup>6</sup> while at the same time drafting seven separate pieces  
11 of testimony, amounting to over 300 pages including exhibits, on the other unresolved issues  
12 of the GRC. It is common and generally expected within contested proceedings that the issues  
13 of disagreement narrow as the proceeding moves forward. It is less common for issues to  
14 expand within later rounds of a contested case and even less likely to expand under a confusing  
15 series of rulings.

16 **Q. Can the Commission take PGE's rolling 12-month earnings test into account within this**  
17 **proceeding?**

18 A. Yes. The Commission has broad authority when establishing fair and reasonable rates and  
19 there is nothing prohibiting the Commission from factoring into account new and relevant  
20 information with respect to the amounts at issue in this proceeding. We believe the results of  
21 the rolling earnings test are very compelling given how drastically different they are from the

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<sup>5</sup> OAR 860-027-0300(9).

<sup>6</sup> Staff included the recommendation of a calendar year earnings test within UE 394 Staff Exhibit 2600, filed January 13, 2022, while PGE's surrebuttal testimony was due February 1, 2022.

1 2020 calendar year test and should be considered within the overarching scope of this earnings  
2 review. Particularly since it was not information the Commission had at the time it established  
3 a calendar year test.

4 **Q. Has PGE already been impacted by the Commission’s order to use a calendar year**  
5 **earnings test?**

6 A. Yes. As briefly mentioned above, following the Commission’s ruling in Order No. 22-129,  
7 PGE wrote off over \$2 million of COVID-19 related deferred amounts for 2020 and over \$14  
8 million (i.e., the entirety) of 2020 deferred amounts related to the Wildfire Emergency (an  
9 event that did not occur until September of 2020). Also, as previously mentioned, if using a  
10 rolling 12-month earnings test from the start of the Wildfire Emergency (i.e., September 1,  
11 2020 through August 31, 2021), PGE’s Column 7, Regulated Adjusted ROE with Deferral  
12 Reversals is only 6.06% and PGE’s Column 5, Regulated Adjusted ROE, prior to Deferral  
13 Reversals is 9.27%; both results are far below the 9.5% threshold for Boardman and the 9.3%  
14 threshold for the Wildfire Emergency, though we are not seeking to recover the costs for the  
15 Wildfire Emergency that have already been written off.

16 **Q. Please describe parties response to PGE’s rolling 12-month earnings test ROE?**

17 A. AWEC’s testimony made no reference at all to PGE’s presentation of a rolling earnings test  
18 demonstrating that following Boardman’s closure, PGE underearned its allowed ROE by over  
19 350 basis points. Staff provided a cursory response to PGE’s rolling earnings test example  
20 and without addressing or responding to the facts PGE presented, suggested PGE’s analysis  
21 should be “disregarded”.

1 **Q. How does PGE respond to Staff’s criticism of PGE’s rolling 12-month earnings test ROE**  
2 **as “cherry picking results” with the purpose to “evoke doubt as to the fairness of the**  
3 **Commission’s methodology”?**<sup>7</sup>

4 A. We disagree with the position that a 12-month representative period of earnings that is  
5 consistent with the actual closure of Boardman is “cherry picking” a result. PGE’s analysis is  
6 not choosing the most opportune period of earnings. Boardman ceased operations on October  
7 15, 2020. As such, the period of October 1, 2020, through September 30, 2021, is the most  
8 representative, most aligned, and most appropriate way of illustrating that Boardman’s closure  
9 did not serve to increase PGE’s earnings beyond its allowed 9.5% ROE. PGE’s earnings from  
10 January 1, 2020, to October 15, 2020, could not have opportunistically benefitted from  
11 Boardman’s closure, because Boardman was still operational during that period of time.  
12 Boardman generated over 1.4 million megawatt hours (MWh) of energy in 2020 and over  
13 98,000 MWh in October 2020 alone.

14 Additionally, Table 1 shows that *every* rolling twelve-month period from the time of the  
15 Boardman closure resulted in earnings that were drastically below 2020 calendar year  
16 earnings. Furthermore, in Exhibit 100, PGE showed that aggregating the 2020 and 2021 years  
17 together also results in low earnings and no refund of the Boardman revenue requirement.  
18 Every perspective of this earnings test where at least 50% of the review period is when  
19 Boardman is closed results in no refund. If anything, we would argue that a calendar year test  
20 when the plant closed in October is the ultimate cherry picked for this earnings review.

21 PGE does agree, however, with Staff that the extraordinarily low ROE (i.e., below 6%)  
22 over the period coinciding with Boardman’s closure *should evoke doubt* as to how fair and

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<sup>7</sup> Staff/100, page 6.

1 representative a calendar year ROE test is in determining the effect of an event that occurred  
2 almost ten months into the year. According to OAR 860-027-300(9), “(t)he period selected  
3 for the earnings review will encompass all or part of the period during which the deferral took  
4 place or must be reasonably representative of the deferral period.” The 2020 calendar year  
5 earnings test period is being used for a deferral spanning over 18 months, in which only the  
6 first two and a half months of the event occurred in 2020. It does not reasonably represent the  
7 deferral period.

8 **Q. What examples are there of rolling earnings tests being previously employed?**

9 A. There are a number of examples of rolling earnings tests being applied when a deferral of  
10 costs or revenues occurs at either the end of a calendar year, or over multiple years.

11 The following provides some PGE-specific examples:

- 12 • Docket No. UE 196 - PGE requested amortization of the deferral of replacement power  
13 costs associated with a major Boardman outage from November 2005 to February  
14 2006. The earnings test applied used a rolling 12-month period from October 1, 2005  
15 to September 30, 2006. This 12-month period was chosen as it included the most  
16 representative earnings for review and no party to the docket disputed its use.
- 17 • Docket No. UE 85 - PGE requested amortization of deferred power costs associated  
18 with the Trojan Nuclear Plant, using a 12-month period from April 1, 1992 through  
19 March 31, 1993 to assess the reasonableness of PGE’s earnings, as this was determined  
20 to be the most representative.
- 21 • Docket No. UM 1224 - PGE was ordered to conduct an earnings review associated  
22 with revenue attributable to the period of October 5, 2005 through December 31, 2005.  
23 Subsequently, PGE conducted an earnings test using the 12-month period of

1           October 1, 2005 through September 30, 2006, which demonstrated that PGE's  
2           earnings over the period were such that that no amount of revenue should be  
3           amortized.<sup>8</sup>

4   **Q. What examples are there of a calendar year test being previously employed for a multi-**  
5   **year deferral where the deferred period represents less than a quarter of the calendar**  
6   **year?**

7   A. PGE could find none.

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<sup>8</sup> Commission Order No. 09-316.

### III. 2020 Operations and Maintenance Reductions

1 **Q. Regarding the multiple black swan events mentioned in Exhibit 100, PGE’s 2020 ROO**  
2 **included utility accounting adjustments to remove the impact resulting from certain**  
3 **2020 energy trading losses. Were any potential impacts from this event not accounted**  
4 **for in PGE’s methodology?**

5 A. PGE reflected all primary, secondary, and tertiary cost impacts of this event within the 2020  
6 ROO and any other filing that could have been impacted by this event, with shareholders  
7 bearing all financial responsibility. However, in response to this event, PGE enacted severe  
8 and unsustainable reductions to its O&M spending for the remainder of 2020, which, all else  
9 equal and without adjusting for, served to increase PGE’s ROE. To illustrate this disparity,  
10 PGE’s actual O&M expense in 2020 was \$35 million below 2019 O&M and \$26 million  
11 below its planned budget for that year as shown later in Table 2. As PGE could not precisely  
12 identify and quantify these amounts, an offsetting regulatory accounting adjustment to reflect  
13 the unsustainable spending reductions resulting from this event was not included within the  
14 ROO.

15 **Q. Is PGE suggesting that customers should not be held harmless for PGE’s trading losses**  
16 **as PGE has previously indicated?**

17 A. No, absolutely not. We in no way think that costs associated with the trading losses should be  
18 reversed for the purposes of the 2020 ROO. We are showing that there are secondary and  
19 tertiary impacts because of the trading losses that resulted in an unusually low O&M in 2020,  
20 which has not been considered in the context of this earnings test, and we think it should be  
21 considered if the trading losses were meant to be treated for customers as though they did not  
22 occur. Customers were meant to be held harmless from the trading losses, not benefit.

1 **Q. Please explain how secondary and tertiary impacts of the trading losses were meant to**  
2 **be treated.**

3 A. Not only did PGE reverse the cost of trading losses from the power cost portion of the ROO  
4 and any other applicable filing, but we reversed any secondary or tertiary impact as a result of  
5 the trading losses, such as the adjustment for additional legal expenses. Ultimately the purpose  
6 of these adjustments was to arrive at results for customers that would be representative of a  
7 world had the trading losses not occurred.

8 In this instance, we are providing information that shows that had the trading losses not  
9 occurred, PGE's O&M (unrelated to power costs) would not have been so uncharacteristically  
10 low. This is a secondary or tertiary impact of the trading losses that was not adjusted.

11 **Q. Were there any other events in 2020 that necessitated unsustainable reductions to PGE's**  
12 **O&M spending for the year?**

13 A. Yes. PGE also took swift actions in the face of the sudden and unprecedented COVID-19  
14 pandemic. There was extreme uncertainty around the impacts of COVID-19 on PGE's  
15 customers and operations and, as a result, extreme and unsustainable cost control measures  
16 were rapidly implemented as a result. While some reductions to PGE's O&M were indeed  
17 savings attributable to this event and, as such, are included in PGE's COVID-19 deferral  
18 balances, they were minor in comparison to the temporary cost cutting reductions PGE found  
19 necessary to implement in the face of financial uncertainty.

20 **Q. While not precisely quantifiable, are these drastic and unsustainable cost cutting**  
21 **measures evident in PGE's accounting?**

22 A. Yes. A review of PGE's actual O&M costs, normalized for Boardman O&M, incentive costs,  
23 and power costs, demonstrates PGE's 2020 actual O&M is significantly below both 2019 and



1 2021 actuals, and below the 2020 budget. Further, a review of PGE’s 2020 budget to actuals  
 2 on a quarterly basis demonstrates the bulk of these reductions occurred directly following the  
 3 start of the pandemic in the second quarter and the trading loss event in the third quarter.  
 4 Tables 2 and 3 below provide these results separated by labor and non-labor.

**Table 2**  
**PGE Operations and Maintenance Costs**  
**in millions**

	<b>2020 Actuals</b>	<b>2020 Budget</b>	<b>2019 Actuals</b>	<b>2021 Actuals</b>	<b>2020 Actuals vs 2020 Budget</b>	<b>2020 Actuals vs 2019 Actuals</b>	<b>2020 Actuals vs 2021 Actuals</b>
<b>Labor</b>	\$193.2	\$210.4	\$252.7	\$226.0	(\$17.1)	(\$59.5)	(\$32.8)
<b>Non-Labor</b>	\$300.0	\$308.8	\$275.5	\$352.4	(\$8.9)	\$24.5	(\$52.4)
<b>Total</b>	\$493.2	\$519.2	\$528.2	\$578.4	(\$26.0)	(\$35.0)	(\$85.3)

Includes FERC 500 through 935  
 Excludes Boardman Operating Units and Departments  
 Excludes Power Cost, Incentive, SERP, and MDCP accounts

**Table 3**  
**2020 Actuals vs. Budget by Quarter**  
**in millions**

	<b>Labor</b>	<b>Non-Labor</b>	<b>Total</b>
<b>Quarter 1</b>	(\$2.0)	\$0.8	(\$1.2)
<b>Quarter 2</b>	(\$5.6)	(\$1.2)	(\$6.9)
<b>Quarter 3</b>	(\$3.2)	(\$13.2)	(\$16.4)
<b>Quarter 4</b>	(\$6.4)	\$4.8	(\$1.6)
<b>Total</b>	(\$17.1)	(\$8.9)	(\$26.0)

Includes FERC 500 through 935  
 Excludes Boardman Operating Units and Departments  
 Excludes Power Cost, Incentive, SERP, and MDCP accounts

5 **Q. How can these results be applied to PGE’s 2020 regulated ROE?**

6 A. There are several ways of estimating what PGE’s regulated earnings for 2020 might have been  
 7 without the immediate and prudent actions the company took in response to the pandemic  
 8 emergency and then the trading loss event. For example, if PGE’s 2020 normalized O&M  
 9 expense was at the level of 2019 expense, PGE’s Column 7 ROE in the 2020 ROO would  
 10 have been 8.50% versus 9.47%, while if PGE’s 2020 normalized O&M expense was at the  
 11 level of amounts budgeted for 2020, PGE’s Column 7 ROE, would have been 8.76% versus

1 9.47%. Tables 4 and 5 below provide the above results isolated for the impacts related to  
2 amounts PGE has already written off for 2020 (i.e., the Wildfire Release and COVID Release)  
3 and the remaining deferral reversals included in PGE’s 2020 ROO.

**Table 4**  
**2019 O&M Adjustment**  
**in thousands**

	<b>O&amp;M Expense</b>	<b>Pre-Tax Operating Income</b>	<b>Post-Tax Operating Income</b>	<b>Total Rate Base</b>	<b>Return on Equity</b>	<b>BPS Change</b>
<b>Column 5 Results</b>		\$426,787	\$378,140	\$5,037,526	10.40%	
<b>2019 O&amp;M Adjustment</b>	\$35,006	\$391,781	\$352,588	\$5,038,504	9.38%	1.01%
<b>2020 Wildfire Release</b>	\$14,317	\$377,465	\$342,138	\$5,038,903	8.97%	0.41%
<b>COVID Release</b>	\$2,186	\$375,279	\$340,542	\$5,038,964	8.91%	0.06%
<b>TE Pilot</b>	\$156	\$375,122	\$340,428	\$5,038,969	8.90%	0.00%
<b>EV Pilot</b>	\$85	\$375,037	\$340,366	\$5,038,971	8.90%	0.00%
<b>Battery Storage Pilot</b>	\$18	\$375,019	\$340,353	\$5,038,972	8.90%	0.00%
<b>COVID Deferral</b>	\$7,826	\$367,194	\$334,641	\$5,039,190	8.67%	0.23%
<b>PHERA</b>	\$6,000	\$361,194	\$330,261	\$5,039,358	8.50%	0.17%
<b>Column 7 Results</b>		\$361,194	\$330,261	\$5,039,358	8.50%	

**Table 5**  
**2020 O&M Budget Adjustment**  
**in thousands**

	<b>O&amp;M Expense</b>	<b>Pre-Tax Operating Income</b>	<b>Post-Tax Operating Income</b>	<b>Total Rate Base</b>	<b>Return on Equity</b>	<b>BPS Change</b>
<b>Column 5 Results</b>		\$426,787	\$378,140	\$5,037,526	10.40%	
<b>2020 Budget Adjustment</b>	\$26,004	\$400,783	\$359,159	\$5,038,252	9.64%	0.75%
<b>2020 Wildfire Release</b>	\$14,317	\$386,466	\$348,709	\$5,038,652	9.23%	0.41%
<b>COVID Release</b>	\$2,186	\$384,281	\$347,113	\$5,038,713	9.17%	0.06%
<b>TE Pilot</b>	\$156	\$384,124	\$346,999	\$5,038,717	9.16%	0.00%
<b>EV Pilot</b>	\$85	\$384,039	\$346,937	\$5,038,720	9.16%	0.00%
<b>Battery Storage Pilot</b>	\$18	\$384,021	\$346,924	\$5,038,720	9.16%	0.00%
<b>COVID Deferral</b>	\$7,826	\$376,195	\$341,211	\$5,038,939	8.93%	0.23%
<b>PHERA</b>	\$6,000	\$370,195	\$336,832	\$5,039,107	8.76%	0.17%
<b>Column 7 Results</b>		\$370,195	\$336,832	\$5,039,107	8.76%	

4 **Q. Is there a method for attributing a portion of PGE’s unsustainable O&M reductions**  
5 **specific to the Trading Loss event?**

6 A. As we state above, there is not a way to precisely calculate this impact. However, a reasonable  
7 proxy for establishing an amount could be to look at PGE’s budget to actuals variance in the  
8 remaining months of 2020 following this event, which occurred in August. Table 6 below

1 provides PGE’s earnings test results if including the September 2020 through December 2020  
2 normalized budget to actual variance.

**Table 6**  
**2020 Trading Loss Impacted O&M Adjustment**  
**in thousands**

	O&M Expense	Pre-Tax Operating Income	Post-Tax Operating Income	Total Rate Base	Return on Equity	BPS Change
<b>Column 5 Results</b>		\$426,787	\$378,140	\$5,037,526	10.40%	
<b>2020 Trading Loss O&amp;M</b>	\$8,394	\$418,392	\$372,013	\$5,037,760	10.15%	0.24%
<b>2020 Wildfire Release</b>	\$14,317	\$404,076	\$361,563	\$5,038,160	9.74%	0.41%
<b>COVID Release</b>	\$2,186	\$401,890	\$359,967	\$5,038,221	9.68%	0.06%
<b>TE Pilot</b>	\$156	\$401,733	\$359,853	\$5,038,225	9.67%	0.00%
<b>EV Pilot</b>	\$85	\$401,648	\$359,791	\$5,038,228	9.67%	0.00%
<b>Battery Storage Pilot</b>	\$18	\$401,630	\$359,778	\$5,038,228	9.67%	0.00%
<b>COVID Deferral</b>	\$7,826	\$393,805	\$354,065	\$5,038,447	9.44%	0.23%
<b>PERA</b>	\$6,000	\$387,805	\$349,686	\$5,038,615	9.27%	0.17%
<b>Column 7 Results</b>		\$387,805	\$349,686	\$5,038,615	9.27%	

3 **Q. Did PGE’s unsustainable 2020 O&M reductions impact 2021?**

4 A. Yes. To return to a core level of activity for 2021, while also addressing some of the  
5 unsustainable reductions in response to the events of 2020, it was necessary for PGE to  
6 increase 2021 O&M expenditures beyond normal levels, which contributed to PGE’s full year  
7 2021 ROE, prior to the recovery of any deferrals, of 4.39%, which is over 500 basis points  
8 below PGE’s authorized ROE. For context that is *more than half* of PGE’s authorized ROE,  
9 or about \$173 million of pre-tax earnings.

10 **Q. Why is this important in relation to the Boardman deferral?**

11 A. This further illustrates the need to look at PGE’s earnings during the period most  
12 representative of the event subject to deferred accounting. As Table 1 makes clear, at no point  
13 during any representative 12-month period following Boardman’s closure does PGE’s ROE  
14 go above 9.5%. Whether viewing PGE’s column 7 results, which, as described above, set the  
15 baseline for determining an earnings review, or viewing column 5 results, which include

1 deferred amounts PGE has already written off, PGE's ROE never approaches 9.5% during the  
2 period following Boardman's closure.

3

#### IV. Earnings Test and Treatment of Deferrals

1 **Q. Please summarize the Parties’ positions regarding PGE’s earnings test.**

2 A. Both Staff and AWEC argue that, based on their calculation of the 2020 earnings test, PGE  
3 should refund the entire \$14 million of the 2020 Boardman deferral.

4 **Q. Do you agree with this proposal?**

5 A. No. To begin with, if adjustments were made to PGE’s ROO to address Staff and AWEC’s  
6 arguments, there would only be \$12.7 million of the 2020 Boardman deferral to refund, not  
7 the full \$14 million.<sup>9</sup> This will be discussed more below.

8 Furthermore, Parties are basing their position on clear misinterpretations of the principles  
9 for preparing the ROO and earnings test and on inaccurate assumptions regarding PGE’s  
10 opening testimony. These wrong assumptions and misinterpretations have led Parties to  
11 erroneous conclusions.

12 In our testimony below, we will first discuss Staff’s own misinterpretation of its 1992 letter  
13 regarding the preparation of the ROO. Then we will identify the wrong assumptions made by  
14 Staff and AWEC and discuss how their incorrect understanding of the ROO has resulted in  
15 erroneous conclusions.

##### **A. Misinterpreting Principles for Preparing the ROO and Earnings Test**

16 **Q. What claims are made by Staff regarding PGE’s preparation of its 2020 ROO and the  
17 application of the earnings test?**

18 A. Staff references a letter sent by Staff in 1992 that provides principles<sup>10</sup> on how to prepare the  
19 ROO for earnings test purposes. Staff claims that “PGE’s treatment is inconsistent with

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<sup>9</sup> Exhibit 201.

<sup>10</sup> Staff/100 refers to them as “instructions” but the 1992 letter refers to them as “principles”.

1 instructions regarding Type 1 adjustments that have been applicable for more than 30 years.  
2 Notably, PGE's treatment is inconsistent with how all other utilities present their results of  
3 operation. Other utilities follow the instructions and have done so for years."<sup>11</sup> Staff further  
4 claims "ROO instructions are venerable having been in place for many years and have served  
5 the parties well."<sup>12</sup>

6 **Q. Does PGE agree that the ROO instructions provided in 1992 are "venerable?"**

A. No. We strongly disagree and find that rather than being venerable and serving parties well, the 1992 principles are obsolete and lacking in sufficient detail. As an illustration, the following is an image of the relevant "instructions" from the 1992 letter:

Under current policy, therefore, the first stage of the report should include adjustments to actual recorded results as follows:

1. Normalizing for weather, streamflows, and plant availability;
2. Incorporating significant rate-making adjustments adopted in your most recent Oregon rate order if not reflected on your books (for example, advertising, memberships, payroll escalation, bonuses, and nonoperating expenses); and
3. Removing entries relating to prior period activity, and including subsequent period transactions clearly related to the test period. Examples include corrections of estimates or errors, and removal of credits or charges associated with other periods.

To avoid confusion, refer to these as "Type I" adjustments, as shown in the attached tables.

No other adjustments should be made at this stage of the report. Common adjustments which have been misclassified here include annualizing revenues and expenses and removing entries related to nonrecurring events. Although such adjustments are reasonable when constructing a test year, for example, they distort the company's earnings position for deciding whether a deferred amount should be amortized.

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<sup>11</sup> Staff/100, page 9.

<sup>12</sup> Staff/100, page 13.

1 **Q. How is Staff’s 1992 letter obsolete?**

2 A. The image above shows the “Type I” adjustments identified in the letter. The first Type I  
3 adjustment listed<sup>13</sup> stopped being applicable in 2007 when the Commission adopted PGE’s  
4 power cost adjustment mechanism (PCAM). Beginning with the 2007 ROO, PGE noted that  
5 “[d]ue to PGE’s PCAM, authorized in Docket UE 180, Order 07-715, we did not normalize  
6 power costs or weather, because we do not believe it is appropriate to assume away the  
7 conditions that produce the power cost variance.”<sup>14</sup>

8 **Q. Did Staff question PGE’s new position on power costs given the adoption of the PCAM  
9 in 2007?**

10 A. No. Staff has never questioned it. Nor are they questioning it in this case. In fact, if PGE were  
11 to make the adjustment for power costs to “normalize” them as outlined in the 1992 letter, this  
12 would alter PGE’s results.

13 **Q. Are there other ways the 1992 principles are obsolete?**

14 A. Yes. PGE makes a number of Type 1 accounting adjustments that are necessary for accurate  
15 regulatory accounting but that are not listed in Staff’s 1992 letter. For example, we reclassify  
16 several items from revenue to power costs because they directly relate to power costs and are  
17 part of the PCAM calculation (e.g., sales for resale, steam sales, transmission resale, gas, and  
18 oil sales). We also consistently make a utility tax adjustment to account for the difference  
19 between PGE-consolidated interest expense and PGE-utility-only interest expense.

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<sup>13</sup> The first Type 1 adjustment is “Normalizing for weather, streamflows, and plant availability.”

<sup>14</sup> Cover letter to PGE’s Regulated Results of Operations for 2007, June 2, 2008.

1 In fact, with the normalization adjustments made obsolete by the PCAM, none of PGE's  
2 Type 1 accounting adjustments in the 2020 ROO are identified in Staff's 1992 letter, yet no  
3 one claims this treatment has been inconsistent or inaccurate.

4 **Q. Why do you say the 1992 letter lacks sufficient detail?**

5 A. In addition to the principles not being updated for evolving regulatory conditions, (e.g., a  
6 PCAM and its effect on Type 1 adjustments), the letter provides no explicit guidance on the  
7 very issue we are addressing in this proceeding, which is how to apply the earnings test to the  
8 amortization of deferred amounts when there are other deferrals during the relevant period.

9 **Q. Why does it matter if the letter that is relied on for crafting a ROO lacks sufficient**  
10 **details?**

11 A. One purpose of the ROO is to provide an earnings test, which means it is submitted as an  
12 exhibit in deferral amortization dockets (such as this current one) and submitted annually as  
13 part of PGE's PCAM filing.<sup>15</sup> In a year where PGE's PCAM falls outside the deadbands, or  
14 in a year of a large deferral, this places significant importance on its preparation and what the  
15 results demonstrate.

16 The principles in the 1992 Letter only state that the operating results "should reflect as  
17 closely as possible the company's *actual* earnings for the reporting period and its ability to  
18 absorb a deferred cost or its need to retain deferred revenues."<sup>16</sup> (Emphasis Added). Our belief  
19 has always been that this sentence means that in order to determine the ability to absorb a cost,  
20 all costs that were incurred, even if deferred, should be reflected if they would impact the  
21 Company's actual earnings. Apparently, the Parties disagree and provide their own

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<sup>15</sup> The other purpose is to provide the ROO on a more forward-looking basis, to help assess the utility's current earnings situation and whether a rate change may be needed. This is accomplished with Type II adjustments, which do not relate to this discussion.

<sup>16</sup> Principles from OPUC Staff for Results of Operations Report, March 25, 1992.



1 interpretations of this one sentence, which means that there are not sufficient details in the  
2 1992 Letter on how this important aspect of the earnings test is to be performed.

3 **Q. Why have these issues not been addressed for 30 years?**

4 A. To our knowledge, the current situation of multiple large, multi-year deferrals which represent  
5 both refunds and collections has never occurred. However, in prior instances of large deferrals,  
6 PGE applied the treatment we advocate here, and Staff and the Commission accepted those  
7 ROOs and earnings test results (i.e., 2005, 2006, 2012, and 2013).

8 **Q. Staff’s testimony states that if PGE’s previous ROO filings used Type 1 adjustments to  
9 reverse deferrals, then PGE was reporting incorrectly. How do you respond?**

10 A. It is concerning that Staff indicates it is not clear to them whether PGE presented its deferred  
11 expenses in a similar manner in ROO filings submitted prior to 2020 and 2021,<sup>17</sup> when  
12 specific examples were referenced in our opening testimony. As we noted in PGE Exhibit  
13 100:

14 “[A]ccounting entries to reverse applicable deferred amounts are most  
15 appropriately included in Type I Accounting adjustments (Column 2 of the ROO),  
16 which was how PGE presented its earnings tests in Dockets UE 196, UE 275 and  
17 UE 292. Further, no party to those dockets questioned that approach, and for UE  
18 275 and UE 292 in particular, the Commission approved full amortizations based  
19 on Staff’s recommendations and PGE’s earnings tests, which included the  
20 deferred costs in the ROO calculations.”<sup>18</sup>

21 As to Staff’s claim that we were reporting incorrectly, since Staff and the Commission  
22 accepted PGE’s ROOs for 2005, 2006, 2012, and 2013 for purposes of stipulations and orders  
23 in Dockets UE 196, UE 275, and UE 292, as well as the corresponding PCAMs for 2012 and  
24 2013 (Dockets UE 274 and UE 291), we believe it is more realistic and that there is more  
25 evidence to assume that Staff’s current position is the one that is incorrect.

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<sup>17</sup> Staff/100, page 10.

<sup>18</sup> PGE/100, page 8.

1 **Q. On Page 9 of Staff’s opening testimony they state that PGE’s treatment is inconsistent**  
2 **with how all other utilities present their ROO. Does Staff provide any data or evidence**  
3 **to support their assertion?**

4 A. No. Staff’s only citation for PGE’s claimed inconsistency with other utilities’ ROOs is oddly  
5 PGE’s own 2020 ROO filing, instead of another utility’s. In fact, there are no references to  
6 other utility filings or explicit detail on how PGE is inconsistent. While Staff can state that all  
7 “[o]ther utilities follow the instructions and have done so for years,”<sup>19</sup> they fail to provide  
8 evidence to support their claim.

9 **Q. Given Staff’s accusation that PGE is inconsistent with other utilities, do Staff and AWEC**  
10 **apply the principles of the 1992 letter consistently with one another?**

11 A. No. Type I adjustments are intended to “normalize” the ROO so that it “can be used to perform  
12 earnings tests required by ORS 757.259.”<sup>20</sup> However, the normalizing adjustments listed in  
13 Staff’s 1992 letter were made obsolete by the PCAM and there are no specific principles or  
14 instructions as to how deferred costs are to be treated in the ROO. Because of the lack of  
15 specifics, Parties provide their own versions of the earnings test (i.e., Staff Exhibit 102 and  
16 AWEC Table 3). These are significant because: 1) their calculations do not match; and 2) Staff  
17 provides alternative versions of possible calculations.

18 **Q. Why should it matter that the Parties’ presented alternative versions of the earnings**  
19 **test?**

20 A. If the principles are so venerable and sufficiently clear as suggested by Staff, both AWEC and  
21 Staff should produce a single and identical earnings test result. They do not. Further, Staff’s

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<sup>19</sup> Staff/100 page 9.

<sup>20</sup> Principles from OPUC Staff for Results of Operations Report, March 25, 1992

1 Exhibit 102 alternatives indicate that subjectivity can be applied to the outcome. This lack of  
2 consistency in their approaches further demonstrates that the Parties’ fail to understand PGE’s  
3 testimony or the fundamentals of an earnings test. This lack of understanding is apparent by  
4 their inconsistent calculations of PGE’s earnings test and resultant conclusion that PGE should  
5 refund the entire 2020 Boardman deferral. In comparison, we provide an earnings test  
6 structure and adjustments that produce a single, consistent, and normalized result regardless  
7 of the number of deferrals, how they are booked (or not booked) for accounting purposes, or  
8 their levels of earnings thresholds.

## **B. Incorrect Assumptions and Erroneous Conclusions**

### *1. Parties’ Inaccuracies Regarding PGE’s Position*

#### **Q. How did Parties inaccurately describe PGE’s opening testimony?**

11 A. Both AWEC and Staff reference PGE’s testimony by repeatedly stating “PGE assumes”  
12 without specifically identifying where these alleged assumptions are made. They incorrectly  
13 claim PGE has made assumptions in our opening testimony and that these claimed  
14 assumptions are not accurate. For example, both AWEC and Staff claim that PGE assumes  
15 that all deferrals listed in the ROO for the earnings test will be written off or that they are  
16 non-recoverable,<sup>21</sup> which is not what we said in our testimony, nor is it our assumption.

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<sup>21</sup> AWEC/100, page 2. Staff/100, pages 9 and 13.

1 **Q. Why is this assumption incorrect? Didn't PGE write off deferral balances?**<sup>22</sup>

2 A. As mentioned in Section II, we wrote off certain deferral balances associated with two of our  
3 deferrals. This, however, does not suggest or indicate that PGE assumed that all deferrals  
4 listed on the ROO for the earnings test will be written off.

5 **Q. Can you provide other examples where you think the Parties may be misinterpreting**  
6 **PGE's position?**

7 A. Yes. Staff makes several claims, in addition to incorrectly claiming that PGE assumes that the  
8 deferrals are non-recoverable. Below is a list of other supposed PGE assumptions regarding  
9 the 2020 ROO.

- 10 • Staff incorrectly claim that PGE assumes that the listed deferrals are not subject to  
11 an earnings test;<sup>23</sup>
- 12 • They incorrectly claim that PGE assumes the deferred amounts at issue are 100  
13 percent prudent yet unrecoverable because of a future earnings test;<sup>24</sup> and
- 14 • They incorrectly claim that PGE assumes the reported ROE of 10.40% (Column 5 of  
15 PGE's ROO), assumes all deferrals are approved.<sup>25</sup>

16 We made none of these assumptions and nowhere in PGE's opening testimony do we suggest  
17 that they are made or appropriate. As such, we are concerned that the Parties apparently do  
18 not understand PGE's testimony regarding this critical and foundational topic.

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<sup>22</sup> Write-offs are distinct accounting entries that record very specific transactions. For an approved deferral. This means that if the costs have been deferred based on an initial expectation of being recoverable, and are later determined to be non-recoverable, then PGE will record an accounting entry to reverse that deferred amount and move the costs back to expense. More specifically:

- A deferral of costs means that PGE would move an expense from the income statement to a regulatory asset on the balance sheet based on a reasonable expectation of recovery; and
- An accounting reversal of that deferral means that PGE would move the cost from the regulatory asset on the balance sheet back to an expense on the income statement based on an updated expectation of non-recovery.

<sup>23</sup> Staff/100, page 10.

<sup>24</sup> Staff/100, page 13.

<sup>25</sup> Staff/100, page 13.

1 **Q. How do the Parties' inaccurate assumptions about PGE's opening testimony and**  
2 **inappropriate reliance on the 1992 letter ultimately impact their positions?**

3 A. It causes them to reach erroneous conclusions. First, by inaccurately assuming that PGE  
4 reversed its deferred entries because the costs would be uncollectible, written-off, or  
5 unrecoverable because of a future earnings test, Parties' fail to adequately address or even  
6 understand these reversing entries and their purpose to provide an earnings result that can be  
7 used to determine if the utility is able to absorb deferred costs or retain deferred revenues.

8 Second, by not understanding these entries and their purpose, it led Staff to inappropriately  
9 rely on the 10.4% ROE in Column 5, which is an arbitrary value because it includes a  
10 mismatch of some deferred amounts but not others as a result of Staff's requested preparation  
11 of this ROO.

12 Finally, Staff incorrectly characterizes PGE's treatment of deferrals that do not have an  
13 earnings test component, resulting in the erroneous perspective that PGE should refund  
14 amounts because of the recovery of deferred amounts deemed to have no earnings test under  
15 the earnings test of another deferral.

16 **Q. If PGE did not assume that its 2020 deferrals were subject to write-off or**  
17 **non-recoverability, what do the deferral reversing entries represent in the ROO?**

18 A. The purpose of these entries is to provide a ROO that accurately reflects all applicable costs  
19 so that the earnings test result, in its entirety, shows "the company's actual earnings for the  
20 reporting period and its ability to absorb a deferred cost or its need to retain deferred  
21 revenues."<sup>26</sup>

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<sup>26</sup> Principles from OPUC Staff for Results of Operations Report, March 25, 1992.

1 **Q. Do these deferral entries make your ROO inconsistent or inaccurate in any way?**

2 A. No. These entries are necessary to normalize the ROO for deferred costs. Without these  
3 entries, the ROO's earnings test results can vary significantly depending on the utility's choice  
4 to defer costs or not defer them as we discussed in PGE Exhibit 100. Additionally, without  
5 these entries, the resulting regulated ROE for an earnings test is arbitrary, just as the 10.4% in  
6 Column 5 of PGE's 2020 ROO is arbitrary.

7 **Q. Why is the 10.4% ROE in Column 5 of PGE's 2020 ROO arbitrary?**

8 A. Again, as explained in PGE Exhibit 100, for accounting purposes, it is the utility's choice to  
9 defer or not defer costs depending on the deferral. During 2020, PGE made choices regarding  
10 costs and revenues potentially subject to deferral. In most cases, PGE chose to defer the costs  
11 or revenues. However, PGE did not defer all amounts potentially subject to deferral.

12 When preparing the ROO, it is necessary to show earnings with all costs and revenues  
13 included. By not reversing the deferred entries to show the inclusion of all costs and revenues,  
14 Column 5 of the ROO is a mismatch of some costs and revenues that have been deferred as a  
15 part of a deferral filing and some that were not, simply because of the decisions made by PGE  
16 during the accounting year.

17 Most notably, PGE did not elect to defer the refund associated with this Boardman deferral.  
18 Had PGE elected to defer this refund, the 10.4% in Column 5 of PGE's ROO would be reduced  
19 by \$14 million because it would not include the revenues that would have been deferred for a  
20 refund, just as Column 5 of PGE's ROO currently does not include the costs associated with  
21 the 2020 Labor Day Wildfires. Basically, Column 5 is treating two deferrals differently  
22 because of the accounting choices PGE made regarding the deferrals. Despite both deferrals  
23 being approved by the Commission. Column 5 *includes* Boardman revenues that *have not*

1       been deferred, but it *does not include* 2020 Labor Day costs that *have* been deferred. An ROE  
2       showing only *some* deferred amounts but not others (Boardman as the example) is arbitrary.  
3       Yet this is what Staff believes is the appropriate treatment.

4       **Q. Staff states “Under PGE’s reasoning, it appears that it would be within the utility’s**  
5       **discretion to choose to reverse a deferral or not.”<sup>27</sup> Do you agree?**

6       A. No. This shows Staff’s continued failure to understand PGE’s testimony. It *is* within the  
7       utility’s discretion to choose to make an accounting entry to defer or not defer costs or  
8       revenues subject to a deferral application that has been filed with the OPUC. However, once  
9       the decision has been made to defer amounts and the accounting entries have been made, those  
10      amounts must be reversed during the preparation of the ROO to reflect the company’s actual  
11      earnings for the period so that its ability to absorb costs or refund revenues can be determined.

12      **Q. Staff states that allowing a utility to include or exclude regulatory assets or liabilities on**  
13      **its whim, rather than based on what the Commission has authorized, will lead to**  
14      **accounting that varies year by year.<sup>28</sup> Do you believe that is an accurate description of**  
15      **what PGE is doing?**

16      A. No. We see this statement as an extension of Staff’s continuing confusion regarding the  
17      utility’s discretion to defer or not defer costs and revenues. As described in detail in PGE  
18      Exhibit 100, and as repeatedly explained in this testimony, deferral reversing entries are  
19      necessary for a utility’s ROO to be *consistent* from year to year.

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<sup>27</sup> Staff/100, page 10.

<sup>28</sup> Staff/100, page 11.

1 **Q. Staff also indicates that applying deferral entries represents “gaming”.<sup>29</sup> How do you**  
2 **respond?**

3 A. Consistent with our prior testimony, these regulatory adjustments are necessary to reflect all  
4 deferred costs in order to normalize the ROO and have accurate and consistent earnings test  
5 results. In contrast to our testimony, which provides clear examples to support our argument,  
6 Staff provides no examples to show how such “gaming” could occur, which makes this  
7 inflammatory accusation baseless and useless for understanding the entries.

8 **Q. Staff also states, “By including the other deferrals in its earnings, the Company is asking**  
9 **the Commission to assume the amounts at issue were 100 percent prudently incurred**  
10 **and recoverable by PGE.”<sup>30</sup> Does this statement make sense?**

11 A. No. This statement does not make sense. This indicates that Staff does not understand that  
12 PGE’s deferral reversing entries result in an increase to the costs, thereby showing PGE’s  
13 earnings *prior* to any determinations of prudence or recoverability.

14 **Q. Is this consistent with Staff’s other arguments?**

15 A. No. Staff contradicts itself which continues to make us believe that Staff does not understand  
16 PGE’s deferral reversing entries and it makes us also unsure of what Staff does believe to be  
17 appropriate. First, they state that PGE has incorporated “assumptions that the deferred  
18 amounts at issue are 100 percent prudent *yet unrecoverable* because of a future earnings test”<sup>31</sup>  
19 (emphasis added) but then, regarding the same deferrals, they state that “[b]y including the  
20 other deferrals in its earnings, the Company is asking the Commission to assume the amounts  
21 at issue were 100 percent prudently incurred *and recoverable* by PGE”<sup>32</sup> (emphasis added).

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<sup>29</sup> Staff/100, page 10.

<sup>30</sup> Staff/100, page 18.

<sup>31</sup> Staff/100, page 13.

<sup>32</sup> Staff/100, page 18.



1 **Q. Did Parties raise any other issues with PGE’s calculation of the 2020 earnings test result?**

2 A. Yes. In addition to Parties objecting to PGE’s deferral reversing entries in general, they also  
3 took exception to PGE’s reversal of two particular deferrals – the COVID-19 (COVID)  
4 deferral,<sup>33</sup> and the Portland Harbor Environmental Remediation Adjustment (PHERA)  
5 deferral.<sup>34</sup>

6 **Q. Why did Parties take exception to COVID and PHERA being part of PGE’s deferral  
7 reversing entries?**

8 A. They did so because portions of these deferrals are not subject to an earnings test like all the  
9 other deferrals to which PGE applied the regulatory reversing entries. In addition, Staff  
10 indicates a further lack of understanding by stating that PGE’s reversal of the COVID deferral  
11 means that PGE assumes we “will not receive any money associated with that deferral”<sup>35</sup> and  
12 that PGE “will not be allowed to amortize any of its COVID-19 deferral”.<sup>36</sup>

13 **Q. Did PGE make such assumptions with regard to the COVID deferral?**

14 A. No. As with the other assumptions attributed to us, we did not make these assumptions either.

15 **Q. Why did you include these deferrals among the reversing entries?**

16 A. The reason is to allow them to provide PGE the very impact for which they were intended:  
17 recovery with no earnings test. Reversing these deferrals as part of the Boardman earnings  
18 test is necessary to implement the COVID and PHERA deferrals as approved by the  
19 Commission.

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<sup>33</sup> Docket UM 2064.

<sup>34</sup> Docket UM 1789.

<sup>35</sup> Staff/100, page 14.

<sup>36</sup> Staff/100, page 17.

1 **Q. How does the reversal of these deferrals in the ROO achieve that impact?**

2 A. By not including these deferrals among the reversing entries, as the Parties argue, PGE's 2020  
3 earnings test ROE would be above 9.5% resulting in a refund of \$12.7 million of the  
4 Boardman deferral, as shown in Exhibit 201. If this were the case, PGE would collect these  
5 COVID and PHERA deferred amounts that are not subject to an earnings test, but then  
6 immediately have to return that money in the form of refunding the Boardman deferral.

7 In other words, AWEC and Staff's position cannot be correct because their approach  
8 would result in the same outcome whether amortization of the COVID deferral is earnings  
9 protected or not. Only PGE's approach inoculates the COVID deferral from an earnings test,  
10 as intended. That is why making the deferral reversing entries and observing the correct order  
11 of deferral amortization processing are necessary.

12 **Q. Please explain the importance of ordering in more detail.**

13 A. The PCAM must be processed first, as confirmed by Commission Order 17-071, and then the  
14 ROO must contain all costs, which is accomplished by the deferral reversing entries. After  
15 incorporating the PCAM outcome in the ROO, the resulting earnings test ROE can be  
16 compared to the target ROE to indicate if and how much deferred costs can be amortized  
17 subject to the earnings test.

18 After that, PGE would submit deferral amortization requests that are subject to an  
19 earnings test and that fit within the earnings test bounds established by the post-PCAM ROO.  
20 With each amortization decision, the ROO is updated to reflect those approvals or any  
21 amounts that might be specifically disallowed. After all deferrals subject to an earnings test  
22 are processed in this manner, we can then process the deferrals that are not subject to an  
23 earnings test, such as the referenced COVID and PHERA deferrals. In this way, PGE

1 appropriately retains those latter amounts and not have their recovery affected by an earnings  
2 test imposed by an unrelated deferral such as Boardman.

3 Essentially, it is PGE’s view that deferrals not subject to an earnings test should neither  
4 result in a refund due to its regulated ROE, nor *cause a refund* by inclusion within its regulated  
5 ROE, which is precisely what Staff and AWEC are advocating.

6 2. Failures of the Parties’ Proposals

7 **Q. You’ve addressed multiple errors in Parties’ attacks on PGE’s testimony, but what**  
8 **methods did Staff and AWEC use to determine that PGE should refund the entire 2020**  
9 **Boardman deferral?**

10 A. They assert that PGE’s earnings test should only include the cost of deferrals that PGE has  
11 written off<sup>37</sup> or be adjusted only for the wildfire and Boardman deferrals.<sup>38</sup>

12 **Q. Do you agree with these results?**

13 A. No. We disagree for several reasons; the first one being that Staff and AWEC do not agree  
14 with each other on the basis of their adjustments or what they mean. AWEC’s basic theme is  
15 that only deferrals that have been authorized to be refunded or written off can be reflected in  
16 the ROO. Essentially, AWEC cherry picks what can be reflected based on what will provide  
17 the most favorable outcome.

18 Furthermore, if the earnings test were required to include the amounts written off and the  
19 amounts related to deferrals with no earnings test, the result would not be the full \$14  
20 million. The result would be \$12.7 million.<sup>39</sup>

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<sup>37</sup> See AWEC/100, page 2.

<sup>38</sup> See Staff/100, page 18.

<sup>39</sup> See Exhibit 201.

1 **Q. Please elaborate on your disagreement with Staff and AWEC’s results.**

2 A. PGE’s write-off of the 2020 wildfire emergency deferral (which AWEC does accept as an  
3 adjustment) has had no Commission authorization. AWEC wants to apply a specific standard  
4 that would not include most deferrals<sup>40</sup> while Staff questions PGE’s approach but makes  
5 conflicting interpretations of it and does not provide a specific proposal or examples of how  
6 their earnings test is to be performed. In other words, the Parties’ arguments are skewed to  
7 achieve only a Boardman deferral refund, but do not lend themselves to a consistent process  
8 for applying an earnings test to any other deferrals.

## V. Summary and Conclusions

9 **Q. Please summarize your arguments.**

10 A. We advocate that a holistic perspective should be taken when performing an earnings review  
11 on a utility, and we have shown how multiple perspectives of this earnings test supports a  
12 position that PGE should not refund any amount of the revenue requirement associated with  
13 Boardman in 2020.

14 PGE has already written-off \$16 million associated with two other deferrals as a result of  
15 the calendar test, and we are not requesting recovery of this \$16 million. We showed the  
16 results of a rolling 12-month earnings test, provided a clear explanation as to why we believe  
17 such a test is most appropriate, and explained our inability to effectively advocate for such a  
18 test in UE 394. However, the results of a rolling 12-month test were not known in UE 394,

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<sup>40</sup> Very few deferrals are written off or authorized to be written off, and only certain ones result in refunds (e.g., R&D tax credit, UM 1991, and the FERC OATT deferral, UM 2217). The majority of approved deferrals are collection deferrals.

1 and we believe it is particularly compelling in this case and should be considered as a part of  
2 this decision.

3 We also discussed in detail our anomalous 2020 O&M expenses and showed methods by  
4 which adjustments could be made to account for them, just as other adjustments were made  
5 to address secondary and tertiary impacts of the trading losses. Such an adjustment would also  
6 result in no refund of the Boardman revenue requirement for 2020.

7 Additionally, in the course of our testimony and exhibits in this proceeding, we have  
8 provided a normalized, accurate, and transparent ROO and earnings test for the 2020 and 2021  
9 deferrals including Boardman. In addition, we have described in detail why the deferral  
10 reversing entry is appropriate and necessary for those ROOs, and how the ordering of deferrals  
11 for amortization is important to achieve reasonable and non-punitive results for PGE.  
12 In contrast, Staff's and AWEC's testimony is inaccurate and misleading and should be  
13 disregarded. Their reliance on Staff's 1992 letter and their interpretation of deferral processing  
14 would produce inconsistent results and ultimately provides no useful guidance for deferral  
15 amortization processing. In other words, their arguments are skewed to achieve only a  
16 Boardman deferral refund, but do not lend themselves to any other deferral processing.

17 **Q. What do you specifically request of the Commission?**

18 A. We respectfully request the following:

- 19 • That the Commission agrees that there is no refund to be made for the 2020 Boardman  
20 deferral;
- 21 • That the Commission consider PGE's rolling 12-month earnings test results for  
22 purposes of evaluating the 2020 Boardman deferral based on the appropriately  
23 representative deferral period as specified by OAR 860-027-0300;

- 1           • That the Commission acknowledge that PGE’s calculation of Column 7 the 2020 ROO  
2           is accurate and provides appropriate earnings test results;
- 3           • That the Commission agrees that the deferral reversing entries are necessary to derive  
4           a consistent, accurate, and transparent earnings test result, and that they represent  
5           Type 1 accounting adjustments;
- 6           • That the Commission agrees that deferrals with no earnings test such as COVID and  
7           PHERA should be included among the deferral reversing entries so that they would  
8           not cause either a refund or lesser collection of a deferral that is subject to an earnings  
9           test;
- 10          • That the Commission agrees that PGE’s detailed method of ordering deferrals for  
11          amortization is appropriate and reasonable for processing deferral amortization  
12          requests; and
- 13          • Should the Commission find it appropriate to require an updated and more detailed  
14          guidance for the ROO, it should occur in a manner that allows input from all utilities.

15   **Q. Does this conclude your testimony?**

16   A. Yes.

**List of Exhibits**

<b><u>PGE Exhibit</u></b>	<b><u>Description</u></b>
201	2020 ROO Summary Including Deferrals without Earnings Test

**UE 410**

**Exhibit 201**

**Provided in Electronic Format Only**