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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1040

In the Matter of)	
)	ORDER
PORTLAND GENERAL ELECTRIC,)	
)	
Deferral of certain advertising costs for)	
later ratemaking treatment)	

DISPOSITION: STIPULATION ADOPTED

Introduction

In Portland General Electric's (PGE) last general rate case, docket UE 115, which was filed as a result of electric industry restructuring legislation, Commission Staff (Staff) recognized that expenses for Category A advertising would exceed the amount considered "just and reasonable" and included in rates.¹ At that time, the parties could not predict the amount of Category A expenses that would be incurred by PGE or how much of it would be considered prudent by the Commission.

To resolve the issue, Staff, PGE, and Fred Meyer Stores stipulated that PGE could include the amount allowed in the rule in its base rates, Order No. 01-777, Appendix B at S-27, and annually defer its excess Category A expense above the amount allowed as prudent in the rule, as long as PGE agreed to an audit for all Category A advertising expenses each year. The Commission could then review the audit results before deciding how much of the deferred amount could be amortized into rates.

First Audit Period

On October 21, 2001, PGE filed an application for the Commission's approval to defer the excess Category A expense for the first audit period, October 1, 2001, through September 30, 2002, in accordance with the UE 115 stipulation. That application was docketed as UM 1040. The Citizens' Utility Board (CUB) expressed its concern that

¹ Category A advertising expenses include "[e]nergy efficiency or conservation advertising expenses that do not relate to a Commission-approved program, utility service advertising expenses, and utility information expenses," OAR 860-026-0022(2)(a), and is considered "just and reasonable in a rate proceeding to the extent that expenses are twelve and one-half hundredths of 1 percent (0.125 percent) or less of the gross retail operating revenues determined in that proceeding," OAR 860-026-0022(3)(a). Category A expenses currently included in rates is approximately \$1.9 million. See Order No. 02-088 at 4.

the amount of the deferral proposed by PGE, \$4.1 million, was excessive and that the provision in the UE 115 stipulation permitted recovery of too much in Category A expenses. Staff, PGE, and CUB then stipulated that PGE could defer all additional Category A advertising expenses for that twelve-month period, but capped the amount that could be amortized into rates at \$1,920,973. The stipulation limited the Category A expenses for that period to \$3.8 million, rather than the \$4.1 million PGE originally requested. The Commission adopted the stipulation in Order No. 02-088.

Staff subsequently audited PGE's actual Category A expenses for October 1, 2001, through September 30, 2002. PGE reported that it spent \$936,234 for excess Category A expenses eligible for deferral for the first audit period. Based on its audit, Staff recommended that the reported expense be reduced by \$66,250 and that the Commission consider \$869,984 as the amount of Category A expense eligible for amortization into rates.

Second Audit Period

On September 30, 2002, PGE applied for reauthorization of the deferral of excess Category A advertising expenses for the second audit period, October 1, 2002, through September 30, 2003. That application was not brought before the Commission until the September 23, 2003, public meeting so that Staff would have an opportunity to complete its audits of Category A expenses for the first audit period.

Staff, PGE, and CUB held a teleconference to discuss whether a stipulation for the second audit period was necessary. CUB reiterated its concerns that the UE 115 stipulation is too open-ended and that the Commission should not allow recovery of excessive Category A advertising expenses. The parties considered the amount of actual expenses incurred in the first audit period, accounted for inflation, and negotiated a new stipulated cap of \$1 million for deferred expenses. The stipulation is attached as Appendix A.

As before, Staff will audit the actual expenses at the end of the period to determine what amount may be amortized in future rates. The Industrial Customers of Northwest Utilities (ICNU), CUB, and other parties may participate in the audit.

ICNU does not object to the stipulation but expressed its concerns at the September 23, 2003, public meeting. The Commission first allowed Category A expenses in excess of those permitted by OAR 860-026-0022(3)(a) in order to promote direct access. ICNU notes that no customer has yet participated in direct access and questions whether continued advertising expenses are worthwhile. In addition, ICNU states that ongoing continued deferrals may conflict with ORS 757.259(3), (4), which limits the use of accounting deferrals.

Public Meeting

Staff presented the application and proposed stipulation to the Commission at the September 23, 2003, public meeting. The application would permit PGE to defer Category A expenses in excess of those allowed in rates for October 1, 2002, through September 30, 2003. The stipulation first notes that the amount of Category A advertising expenses from October 1, 2002, to September 30, 2003, included in rates by rule is \$1,879,027. Next, it provides that PGE may seek to amortize up to \$1 million in additional deferred Category A expenses. The deferral and amortization provided for in this stipulation does not apply to Category A expenses incurred after September 30, 2003. On behalf of the stipulating parties, Staff requested that the Commission allow the application and accept the stipulation.

Commission Resolution

At the public meeting on September 23, 2003, the Commission allowed the application and adopted the stipulation. The application is allowed as part of the process negotiated in the UE 115 docket. In light of the prior negotiations among PGE, CUB, and Staff, and based on the audit of the last period, the terms of this stipulation fairly balance the interests of customers and PGE, and result in a fair and just outcome. The Commission's approval of this stipulation is for accounting purposes only and does not constitute approval for ratemaking purposes.

ORDER

IT IS ORDERED that:

1. The September 30, 2002, application by PGE for reauthorization of the deferral of excess Category A expenses for October 1, 2002, through September 30, 2003, is allowed.
2. The September 3, 2003 stipulation, executed by Portland General Electric, Citizens' Utility Board, and the Commission Staff is adopted.

3. Portland General Electric shall continue to file with the Commission a report documenting all Category A expenses within 45 days of the end of the quarter.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.