

ORDER NO. 18 443

ENTERED NOV 20 2018

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UP 378

In the Matter of

PORTLAND GENERAL ELECTRIC  
COMPANY,

Application for Approval of the Sale of  
Property in Hillsboro, Oregon.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on November 20, 2018, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:



A handwritten signature in blue ink, appearing to read "Michael Grant", is written over a horizontal line.

**Michael Grant**  
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

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ITEM NO. 3

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 20, 2018

REGULAR X CONSENT \_\_\_\_\_ EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: November 8, 2018

TO: Public Utility Commission

FROM: Kathy Zarate KZ

THROUGH: Jason Eisdorfer *JE* and John Crider

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 378) Request for approval of the sale of Poles and Circuit to the City of Hillsboro.

**STAFF RECOMMENDATION:**

The Public Utility Commission of Oregon (Commission or OPUC) should approve Portland General Electric's (PGE or Company) Application for Approval of Sale of PGE Property to the City of Hillsboro (COH or City), subject to the following conditions:

1. The property that is the subject of this transaction will be removed from PGE's rate base effective January 1, 2019. PGE will file tariffs in compliance concurrent with its compliance filing in its currently pending general rate case, OPUC Docket UE 335.
2. PGE shall notify the Commission in advance of any substantive change to any agreement filed in this proceeding, including any material changes in price. Any changes to the terms that alter the intent and extent of activities under the agreements from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
3. The Commission reserves the right to review, for reasonableness, financial aspects of this arrangement in any rate proceeding.
4. In addition to Condition #1, the gain resulting from the transaction should be placed into the Property Sales Balancing Account until such time as it can be returned to customers.
5. The final journal entries recording the transaction shall be submitted to the Commission within 60 days after the transaction closes.

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## DISCUSSION:

### Issue

Whether the Commission should approve PGE's Application for Approval of Sale of PGE Property to the City of Hillsboro, which includes the sale of 1,805 lights and 1,174 poles and all associated circuit to the COH.

### Applicable Rule or Law

Under ORS 757.480, a utility must obtain Commission approval before selling property used for utility service valued over \$100,000. The Commission applies a "no harm" standard to requests to sell property.<sup>1</sup> OAR 860-027-0025 requires that the utilities provide certain information with an application filed under ORS 757.480, including a description of the property and the purpose of the sale.

### Analysis

COH currently receives luminaires that receive electric and maintenance service from PGE under Schedule 91 and Schedule 95 of PGE's tariff E-18. These luminaires are classified as Option A luminaires, which are luminaires purchased, owned and maintained by PGE with attachment to Company-owned poles at the monthly Option A rate applicable to the installed type of light. Pursuant to the Company's tariff, COH may elect to convert its Option A luminaires receiving standard service under Schedule 91 and Schedule 95, to the equivalent Option C rate (i.e. City-owned and maintained light fixtures).

In 2016, COH notified PGE of its interest in converting its existing Option A luminaires to Option C. Following discussion with PGE and consistent with PGE's tariff, COH elected to convert all the lighting fixtures under Schedule 91 and Schedule 95 "Option A" rates to the equivalent "Option C" rate. Under Schedule 95 Option C or Schedule 91 Option C, COH assumes full responsibility for maintaining all of the poles, lights and circuits (collectively, "Equipment").

PGE filed this application on August 8, 2018, asking for approval of its proposed sale of 1,174 owned Poles, 1,805 owned lights, and all owned associated Circuits beyond the point of demarcation in the city of Hillsboro.

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<sup>1</sup> See e.g., Order No. 05-966 (Noting the Commission applied the no harm standard when considering PGE's request for approval to sell property); 01-778 (Noting the Commission applies the no harm standard to requests filed under ORS 757.480).

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The proposed purchase price for the poles, luminaries, and circuit is \$1,476,721. PGE's proposed gain on the sale is \$577,932.

Staff investigated the following issues:

1. Terms and Conditions of the Purchase Agreement;
2. Transfer Pricing;
3. Public Interest Compliance; and
4. Records Availability, Audit Provisions, and Reporting Requirements.

*Terms and Conditions of the Purchase Agreement*

PGE and COH signed a Bill of Sale (Agreement) outlining the terms of the proposed sale. The Agreement specifies the Equipment is to be "sold as is" and "where is," with no warranty of any kind. Also, both COH and PGE have the right to terminate the Agreement if the transaction is not finalized (Closed) by December 31, 2018. At Closing, COH will assume risk for any loss or damage to the Equipment.

The proposed sales price is based on the replacement cost, less depreciation, to calculate the market value. To estimate the net book value of the poles and lights, the Company first approximated the current cost (2017 dollars) of installing the poles in the proposed sale in accordance with 2017 National Electric Safety Code (NESC) standards, trended to original year of installation, less depreciation based on the pole or light vintage. PGE estimated the net book value for the Circuit using the final geographic information system map product associated with the final pole count to identify the total number of circuit feed identified as associated with the poles. To determine the net book value, PGE subtracted the average reserve for the streetlight wire being purchased, from the average book cost.

PGE estimated the following entries, the sale of Streetlight Poles, Fixtures, and associated Circuit Wire to the City of Hillsboro. Selling Price \$1,476,721 (the "Purchase Price"), Original Cost \$1,347,171, Reserve \$448,382, and Gain (loss) realized \$577,932.

*Transfer Pricing*

PGE will defer the gain on the sale of the equipment of approximately \$577,932. The Company has agreed to place the gain in the property sales balancing account to allow return of the gain to customers, which is consistent with Commission Order No. 01-777 regarding gains on the sale of property.

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*Public Interest Compliance*

The Commission customarily applies a no harm standard with regard to the public interest compliance of property sales.

In prior, similar cases, the Commission has approved the sale of similar equipment to governmental entities with PGE's agreement that it will credit customers with net retail revenues and attachments revenues for a period of time.<sup>2</sup> This is because, in general, similar sales could have some impact on customers through the Company's reductions in future pole-leasing and pole-attachment revenues.

However, in this case, Staff confirmed that there are no pole attachments revenues associated with the equipment to be sold. Further, because this docket was filed during the pendency of PGE's general rate case (UE 335), the Company removed the associated operations and maintenance costs, as well as net retail revenues, resulting from the COH's desire to switch from Option A to Option C. As such, PGE's rates for 2019 do not assume either operations and maintenance costs nor net retail revenues.

Staff further investigated whether the equipment subject to the sale was included in the Company's forecast rate base for 2019. PGE indicated that the equipment was inadvertently included in rate base for 2019, and therefore, agreed to remove the equipment from its rate base calculation in its compliance tariffs for UE 335.

Under the particular circumstances in this case, including that there are no attachments revenues, and that customers in 2019 and beyond will pay no costs associated with these poles, Staff finds that the public interest standard has been met.

Additionally, the Company has agreed to place the gain in the property sales balancing account to allow return of the gain to customers.

Finally, Staff notes that it typically uses market value as the benchmark to determine the reasonableness of the price utility property is to be sold. In other words, Staff supports the principle that utilities should seek market value for property, meaning the full value of the facilities being sold.

*Records Availability, Audit Provisions, and Reporting Requirements*

During Staff's investigation the Company provided requested information in a timely and professional manner.

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<sup>2</sup> See e.g. *In re Portland General Electric*, OPUC Docket No. UP 310, Order No. 15-372 (Nov. 17, 2015).

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PGE has reviewed a draft of this memo and agrees with Staff's recommendation in this case.

Conclusion

Based on the review of PGE's Application, Staff concludes The Commission should approve the Agreement, subject to the following conditions:

1. The property that is the subject of this transaction will be removed from PGE's rate base effective January 1, 2019. PGE will file tariffs in compliance concurrent with its compliance filing in its currently pending general rate case, OPUC Docket UE 335.
2. PGE shall notify the Commission in advance of any substantive change to any agreement filed in this proceeding, including any material changes in price. Any changes to the terms that alter the intent and extent of activities under the agreements from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
3. The Commission reserves the right to review, for reasonableness, financial aspects of this arrangement in any rate proceeding.
4. In addition to Condition #1, the gain resulting from the transaction should be placed into the Property Sales Balancing Account until such time as it can be returned to customers.
5. The final journal entries recording the transaction shall be submitted to the Commission within 60 days after the transaction closes.

**PROPOSED COMMISSION MOTION:**

Approve PGE's Application for Approval of the sale of property to COH, subject to Staff's recommended conditions.

Direct PGE to remove the equipment subject to this sale from rate base effective January 1, 2019.

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