

ORDER NO. 20-389

ENTERED Oct 27 2020

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2115

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY,

Application for Deferral of Wildfire
Emergency Costs and Lost Revenues.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on October 20, 2020, 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:



Nolan Moser

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.

ITEM NO. RA4

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 20, 2020**

REGULAR X **CONSENT** **EFFECTIVE DATE** September 10, 2020

DATE: October 15, 2020

TO: Public Utility Commission

FROM: Curtis Dlouhy

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UM 2115)
Requests authorization to defer expenses associated with 2020 wildfire damage restoration.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Portland General Electric's (PGE or Company) application to defer costs associated with damage restoration from the 2020 Labor Day wildfires for the 12-month period beginning September 10, 2020, to be netted with deferred revenue requirement amounts associated with plant no longer used and useful.

Staff further recommends that the Commission approve a regulatory asset for PGE's undepreciated investment in plant no longer used and useful due to wildfire damage or destruction.

DISCUSSION:

Issue

Whether the Commission should approve PGE's deferral application filing relating to costs associated with the 2020 Labor Day wildfires for the 12-month period beginning September 10, 2020, to be netted with deferred revenue requirement amounts associated with plant no longer used and useful.¹

¹ Plant no longer used and useful does not include plant capable of providing service but temporarily disconnected due to wildfires.

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Whether the Commission should approve a regulatory asset for PGE's undepreciated investment in plant no longer used and useful due to wildfire damage or destruction.

Applicable Rule

PGE makes this filing in accordance with ORS 757.259 and OAR 860-027-0300. ORS 757.259 authorizes the Commission to allow a utility to defer, for later recovery in rates, expenses or revenues in order to minimize frequency of rate changes or to match appropriately the costs borne by and benefits received by customers. OAR 860-027-0300 sets forth several requirements for application to defer.

Analysis

Background

PGE filed this deferral request on September 10, 2020, in the midst of the unprecedented wildfires that began on Labor Day weekend and continued to plague Oregon in the following weeks (hereinafter referred to as "Labor Day wildfires" or wildfires). The wildfires have burned over a million acres in Oregon to date, including land in PGE's territory, resulting in significant and in some cases devastating damage. PGE seeks to defer costs incurred to restore its transmission and distribution systems.² A full discussion of the costs can be found in Confidential Attachment A to PGE's Clarification of Application.

In its Initial Application, PGE asked for authority to defer costs associated with the Labor Day Wildfires as well as lost revenues.³ On October 8, 2020, PGE filed a Clarification of Application in which it stated that it is no longer seeking to defer lost revenue related to the wildfire that are subject to this deferral application.⁴

In its clarification filing, PGE offered additional details on damage caused by the wildfires and its restoration efforts. Some areas where PGE equipment and facilities are located are still inaccessible due to ongoing firefighting efforts. Accordingly, PGE does not yet know the full extent of the damage to its facilities. As of the October 1, 2020, Special Public Meeting on the 2020 wildfires, PGE estimated that it had replaced over 260 poles, 200 cross arms, 16 miles of conductors, and have employed 67 line crews and 54 vegetation management crews to restore power to its ratepayers and rebuild its infrastructure.

² PGE's Application for Authorization to Defer Costs and Lost Revenues Associated with the Wildfire Emergency, Page 4.

³ PGE's Application for Authorization to Defer Costs and Lost Revenues Associated with the Wildfire Emergency, Page 1.

⁴ Clarification of Application, Pages 2-3.

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PGE proposes that its deferral request be treated separately from what are known as Level III storms. Commission Order No. 10-478 in the general rate case Docket No. UE 215 allowed PGE to collect \$2 million annually in rates to pay for service restoration following severe storms, categorized as Level III storms. In its most recent general rate case, UE 335, PGE proposed to increase the annual amount to \$3.8 million in order to reflect the increase in the rolling ten-year average cost of storm recovery. The Company proposed using the Level III Reserve in its initial filing on September 10, 2020.

In its clarification filing, the Company notes that the Level III reserve account is primarily meant to address winter and spring storms rather than natural disasters or catastrophic events.⁵ As such, if the Company were to receive this deferral, the Company now proposes accounts for the costs incurred by the 2020 wildfires be in a separate account than the Level III reserve account.

Staff position

Staff believes it is reasonable to conclude that the devastating wildfires that burned through PGE's territory were not foreseeable as happening in the normal course of events or likely to have been capable of forecast.⁶ Based on discussions with the Company and preliminary estimates provided by the Company in its Clarification of Application, the amounts at issue appear material. Furthermore, Staff believes a deferral would allow PGE to align customer costs and benefits. However, due to the unprecedented nature of this event it is appropriate to use an alternative method to track the interim retirements of plant that have and will occur associated with assets damaged or destroyed during this event.

The deferral in this case should track both the cost of new plant used to replace damaged or destroyed, existing plant, as well as the revenue requirement effects of damaged plant being removed from rate base. These two amounts will be netted against each other to ensure that customers are not paying both for new plant and damaged, removed plant at the full Commission authorized return. In order to ensure that PGE receives recovery of its investment in removed plant, a regulatory asset should be authorized that includes the undepreciated balance of removed plant. Amortization of this regulatory asset will be determined at a future date, as well as the appropriate return on the unamortized balances consistent with applicable legal precedent. Staff and PGE agree that a shorter amortization period for the regulatory asset should be used, with interest over that time consistent with the time value of

⁵ Clarification of Application, Page 3.

⁶ See *In the Matter of the Public Utility Commission Staff Request to Open an Investigation Related to Deferred Accounting* (UM 1147), Order No. 05-1070 (Oct. 5, 2005) (setting forth guidelines for use of deferred accounts).

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money. It is Staff's hope that parties will continue to collaborate, taking into account these factors, to bring a joint proposal to the Commission when amortization is being considered by the Commission.

Finally, we note these are departures from typical interim retirements and are for this deferral application. These departures should not be considered precedential for replacement events that occur in the normal course of utility operations.

Staff also agrees with the Company that the Level III storm cost recovery mechanism is not an appropriate tool to address the wildfire recovery. Hence, establishing a separate account to keep track of the costs associated with recovery is necessary. For the purposes of this deferral filing, power costs resulting from wildfire damage and destruction have been included, despite concerns raised by some stakeholders. The Company acknowledges that it will ultimately need to demonstrate that such costs are appropriate for inclusion, are reasonably identifiable, and that such costs were prudently incurred at the cost recovery and amortization stage of the deferral process.

Staff also notes that this means that the costs incurred in response to the 2020 Labor Day wildfires should not be used in the 10-year rolling average used to determine the total rates collected for the Level III reserve account.

Staff would like to reiterate that allowing this deferral is not equivalent to approving any or all costs associated with the 2020 Labor Day wildfires, but rather it allows the Company to establish an account to keep track of actual costs in a separate wildfire deferral account, and allows for the tracking of an off-setting revenue requirement effect of plant no longer used and useful so that customers are not paying twice for plant – once for replaced plant and continued payment for damaged plant embedded in base rates. Inclusion of particular costs would come later during a prudence review before the amounts are amortized into customer rates. For now, a discussion of the costs incurred and estimated incremental costs can be found in Confidential Attachment A to PGE's Clarifying Application, filed on October 8, 2020.⁷ Due to ongoing fire and safety risks and associated inaccessibility, the Company does not yet have estimates of the revenue requirement effects of the damaged plant no longer used and useful at this time.

Conclusion

Based on the nature of the event and materiality of the costs associated with the 2020 Labor Day wildfires, Staff concludes the discretionary criteria for an application to defer are satisfied. Further, a deferral would align customer costs and benefits, which

⁷ Attachment A is confidential subject to Protective Order No. 20-329.

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satisfies the statutory criteria for approval of an application to defer. The 2020 Labor Day wildfires are not like the storms addressed by the Level III Reserve account. Thus, amounts in the Level III Reserve account should not be used to offset these costs. Therefore, Staff recommends that the Commission approve PGE's request for deferred accounting for the costs associated with the 2020 Labor Day wildfires recovery. The Company has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve PGE's application to defer costs associated with damage restoration from the 2020 Labor Day wildfires for the 12-month period beginning September 10, 2020, to be netted with deferred revenue requirement amounts associated with plant no longer used and useful.

Approve a regulatory asset for PGE's undepreciated investment in plant no longer used and useful due to wildfire damage.

PGE UM 2115 Deferral of Wildfire Restoration Costs