ORDER NO. 25-417

ENTERED Oct 21, 2025

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 455

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY, Request for Seaside Battery Storage Resource Alternative Recovery Mechanism (Schedule 120).	ORDER

DISPOSITION: SCHEDULE 120 APPROVED WITH MODIFICATIONS

In this single-issue rate filing, Portland General Electric Company (PGE) files to bring the Seaside Project into rates. We grant PGE's request, with modifications as discussed below.

I. BACKGROUND AND PROCEDURAL HISTORY

Seaside is a lithium-ion Battery Energy Storage System (BESS) with 200 MW nameplate capacity and four-hour storage capability (*i.e.*, a total capacity of 800 MWh) that is located in North Portland. Seaside was sourced in PGE's 2021 request for proposals (RFP), after its 2019 IRP forecasted a capacity shortfall in 2025. Seaside's construction was governed by a Build Transfer Agreement contract that originally allowed for the facility to come online by August 21, 2025, after which it would be owned and operated by PGE. The Seaside project came online early on July 1, 2025.

PGE requested a tracker mechanism in its last general rate case, docket UE 435, to bring Seaside into rates once it was in service. At that time, Seaside was scheduled to come online in June 2025.

We rejected PGE's proposed tracker in docket UE 435, but stated that we were open to a proposal from PGE that "fairly balance[s] the interests of customers and investors."[1] In particular, we expected any tracker "to balance regulatory lag by truing up depreciation upon the inclusion of Seaside in rate base" and include "incentives that further balance

[1] *In the Matter of Portland General Electric Company*, *Request for a General Rate Revision*, Docket No. UE 435, Order No. 24-454 at 45 (Dec. 20, 2024).

the benefits of a tracker mechanism for customers, such as a commitment to not file a new GRC for a certain amount of time."[2]

On May 30, 2025, PGE filed proposed Schedule 120, to request recovery of the revenue requirement associated with Seaside. In the testimony accompanying its filing, PGE stated that it was responsive to the Commission's directives in docket UE 435 because, under its proposal, the company absorbs regulatory lag and avoids a general rate case, which would have been filed in early 2025 for rates effective on, or near the beginning of, 2026.

Subsequently, the parties to this proceeding conferred and agreed on a Memorandum of Understanding (MOU), which PGE filed along with supplemental testimony on June 20, 2025. The MOU was agreed to by PGE, Staff of the Oregon Public Utility Commission, the Alliance of Western Energy Consumers (AWEC), and the Oregon Citizens' Utility Board (CUB) and lays out a framework for what parties will advocate as to rate recovery in the cost recovery mechanism for Seaside and the Distribution System Plan (DSP) Adjustable Rate Mechanism (ARM), proposed in docket UE 459.[3]

The parties filed three rounds of testimony in this proceeding and held a hearing on August 28, 2025. Subsequently, parties filed opening and closing briefs.

II. DISCUSSION

PGE filed its proposed Schedule 120 to bring Seaside into rates, with an effective date of October 31, 2025. Rate base totals $256.8 million, a decrease from the UE 435 total rate base of $268.1 million. Operations and maintenance (O&M) and administrative and general (A&G) expenses total approximately $3.2 million on an annualized basis. PGE includes Net Variable Power Cost (NVPC) benefits from the Seaside resource of approximately $4.1 million on an annualized basis. But Schedule 120 provides that no later than December 1 of 2025, the company will file an update to this schedule to remove the power cost benefit for the following year and include the benefit in the Annual Update Tariff (AUT)—accordingly, the NVPC benefits in its filing will only be included in rates for November and December of 2025.

Additionally, PGE's Schedule 120 provides for it to make annual filings up until such time as the project is included in base rates or is no longer in service. Those annual filings will update the costs included under Schedule 120. We make certain determinations regarding the content of those annual filings below.

---

[2] *Id.*

[3] *In the Matter of Portland General Electric Company, Application for Distributed System Plan Alternative Rate Mechanism*, Docket No. UE 459, Initial Utility Filing (Advice No 25-22) (July 25, 2025).

A. MOU

The MOU submitted by the parties describes "the scope of costs that may be recovered through the Seaside and DSP ARM in comparison to costs sought in a general rate review." The parties explain they entered into the MOU "as an alternative to PGE deciding to pursue a general rate review in 2025." The MOU includes certain binding agreements, including that "[t]he Capital Costs PGE will seek to recover in a Seaside Tracker shall not exceed the Capital Costs provided for Seaside in UE 435 PGE Exhibit 2401, as modified to use the Commission-approved [Return on Equity] ROE of 9.34 [percent]." Additionally, "[r]ate base will be calculated as of October 31, 2025, and include depreciation expense, accumulated depreciation and deferred taxes consistent with the method used for setting prices in [docket] UE 435."[4]

During the course of this proceeding, a number of disputes arose between the parties regarding differing interpretations of certain provisions in the MOU. These differences are discussed in the relevant sections below. The parties ask the Commission to interpret the MOU and to settle these disputes in order to decide the issues in this case.[5]

The use of an MOU is unlike a stipulation, in that it is not an agreement that the parties propose for the Commission to adopt to resolve the issues in a proceeding. Under OAR 860-001-0350, the Commission may adopt, reject, or propose to modify a stipulation. Our standard is well settled: we review settlements on a holistic basis to determine whether they serve the public interest and result in just and reasonable rates. To support the adoption of a settlement, the stipulating parties must therefore present evidence that the stipulation is in accord with the public interest, and results in just and reasonable rates.

Here, this MOU is presented as an agreement between the parties, intended to narrow the scope of the issues in this and other proceedings. Rather than demonstrating that the terms of the MOU are in accord with the public interest, and result in just and reasonable rates, the record before us indicates a lack of mutual understanding on certain key terms of the MOU among the parties. As a result, we are not persuaded that deciding disputes based on the prevailing interpretation of provisions of the MOU will appropriately resolve the issues in this case and result in just and reasonable rates.

---

[4] Docket No. UE 435 was PGE's last general rate case.

[5] PGE/302, Batzler-Pleasant/4. We note that Section 10 of the MOU provides that "[i]f the signatories disagree whether an issue or cost recovery item raised by a party is within the scope of the MOU, they will convene to determine next steps." PGE argues, and we note its argument below, that no party has convened such a meeting, meaning the MOU is no longer binding on any signatory.

We recognize and appreciate that the MOU does represent an agreement between the parties on bringing Seaside into rates while delaying a general rate case. Where the MOU demonstrates alignment among parties representing diverse interests, we will accord that agreement some weight. Where the parties, however, failed to achieve a meeting of the minds in the MOU, we are not persuaded that those provisions of the MOU demonstrate a reasonable resolution of the issues.

Accordingly, on these key issues, we focus our decision not on resolving the parties' competing interpretations of the MOU provisions, but on resolving the issues to result in a balanced rate adjustment mechanism and just and reasonable rates. When we initially discussed a potential tracker in UE 435, we emphasized that we would approve that tracker "if, and only if, it achieves an appropriate balance between customers and the company, correcting some of the negative consequences of single-issue ratemaking." We continued that "[w]e would expect that filing to balance regulatory lag by truing up depreciation upon the inclusion of Seaside in rate base."[6] We have previously recognized that "regulatory lag associated with new plant investment is a regular aspect of utility ratemaking, which is counterbalanced by the utility continuing to recover a return of and on plant balances as of its last rate case."[7] Here, we are particularly concerned with ensuring that the mechanism as a whole appropriately balances lag and results in just and reasonable rates.

B. Gross Plant

PGE proposes to include gross plant of $395,506,711.10. AWEC proposes to adjust that to $361,306,419, leading to a reduction of $8.7 million to the revenue requirement, based on the terms of the MOU. Staff proposes a $60,000 adjustment to rate base to account for a 50/50 split between shareholders and ratepayers on non-officer incentives and meals and entertainment. It also proposes a $234 thousand decrease in annual property tax expense.

1. Positions of the Parties

a. AWEC

AWEC first cites the MOU, which states that "Capital Costs PGE will seek to recover in a Seaside Tracker shall not exceed the Capital Costs provided for Seaside in [docket]

[6] Docket No. UE 435, Order 24-454 at 45.
[7] *In the Matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 374, Order No. 20-473 at 122, n 595 (Dec. 18, 2020) (citing *In the Matter of Public Utility Commission of Oregon, Investigation of the Scope of the Commission's Authority to Defer Capital Costs*, Docket No. UM 1909, Order No. 20-147 at 13 (Apr 30, 2020)).

UE 435 PGE Exhibit 2401."[8] Since that time, AWEC states, PGE has made major changes to the FERC accounts in which Seaside capital costs are booked, and also expanded the scope of costs covered under the Seaside tracker. In particular, AWEC argues that PGE is attempting to recover from FERC accounts that were not included in docket UE 435 and thus not reviewed for prudence in that docket. AWEC argues that PGE should be limited to the amounts it established for FERC Account 363 identified in docket UE 435. This adjustment results in a reduction of $8.7 million to revenue requirement.

AWEC also recommends the Commission require an officer attestation for final capital costs.

b. Staff

As an initial matter, Staff supports AWEC's arguments regarding exclusion of gross plant that falls under FERC accounts that were not listed in docket UE 435. It states that allowing PGE to use this abbreviated proceeding to recover capital investments that were not reviewed by parties in docket UE 435 is inappropriate. It adds that while PGE's gross plant has dropped below the UE 435 level, this is only because Seaside closed to plant earlier than anticipated—on July 1 rather than August 21. Staff argues that PGE's cost savings due to a shorter than anticipated construction period should be passed along to customers.

Staff additionally proposes adjustments to PGE's proposed costs for plant in-service for meals and entertainment and incentives. Namely, Staff recommends a $60,000 adjustment based on what it characterizes as traditional ratemaking practices. Staff recommends the Commission remove 50 percent of capitalized costs for meals and entertainment and merit-based incentives paid to employees and 100 percent of capitalized officer incentives because these costs are generally excluded from revenue requirement under Commission precedent. Staff cites to PacifiCorp's 2024 general rate case, where the Commission removed 100 percent of officer incentives and split non-officer incentives between ratepayers and shareholders to recognize that those incentives depend on meeting shareholder expectations.[9] Staff also points to PacifiCorp's 2020 rate case, where the Commission removed 50 percent of meals to incentivize them to be modest and necessary for business purposes.[10]

---

[8] PGE/302, Batzler–Pleasant/2.
[9] *In the Matter of PacifiCorp, dba PacifiCorp Power, Request for a General Rate Revision*, Docket No. UE 433, Order No. 24-447 at 56 (Dec. 19, 2024).
[10] Docket No. UE 374, Order No. 20-473 at 101, n 491 (Dec. 18, 2020) (citing *In the Matter of Portland General Electric Company*, UE 197, Order No. 09-020 at 21 (January 22, 2009)).

Finally, Staff disagrees with PGE about the amount of property taxes to be recovered.[11] Staff proposes using a relationship factor of 0.96, calculated based on the average of the last three years of PGE's historical tax data.

c. PGE

PGE opposes all adjustments to gross plant. As to the AWEC adjustment, PGE states that the MOU never prescribed the costs to be recovered for Seaside by specific FERC accounts in the Uniform System of Accounts (USOA) identified in docket UE 435. PGE also notes that in the interim, FERC adopted Order 898—while that order was issued on June 29, 2023, the final rule revising the USOA did not go into effect until January 1, 2025, after the final order in UE 435.[12] That order updated the USOA to add more specific accounting treatment for storage technologies, as well as certain hardware and communication equipment. PGE states that based on FERC's updates in Order No. 898, PGE had to, and did, update the FERC accounts in this filing for Seaside to reflect changes consistent with the USOA. PGE argues that to penalize PGE for complying with federal law would be unfairly punitive.

As to Staff's adjustments, PGE states that the costs in question are reasonable costs directly related to the project and have been prudently incurred. PGE argues that the costs for meals, entertainment, merit-based incentives, and parking costs were included in the bid submitted in the 2021 RFP. It states that when judging prudence, the Commission considers the "consistency of resource investments with least cost planning principles."[13] It continues that, when resources are included in an RFP, the resource acquisition is presumed reasonable if the utility adhered to the competitive bidding guidelines (now the competitive bidding rules).[14]

PGE also argues that this case is distinguishable from the PacifiCorp general rate case where meals and entertainment were last addressed because in this case, PGE separately documented and supported the meal and entertainment costs that it proposes to add to gross plant. As to incentives, PGE defends them as contributing to Seaside's success. Seaside, PGE states, went into service prior to the guaranteed in-service date, and it can be reasonably inferred that merit-based incentives contribute to that outcome.

On property taxes, PGE states that it multiplied the Multnomah County tax levy rate by the Net Utility Plant value, exclusive of accumulated deferred investment tax credits. It

[11] *See* PGE/302, Batzler-Pleasant/2. The MOU specifies that property taxes are to be recoverable in this proceeding.
[12] FERC Order 898 ¶ 66; *See also* 183 FERC ¶ 61,205.
[13] *In the Matter of the Investigation into Lease-Cost Planning for Resource Acquisitions by Energy Utilities in Oregon*, Docket No. UM 180, Order 89-507 at 7 (Apr. 20, 1989).
[14] OAR 860-089-0500(2); *In the Matter of PacifiCorp, dba Pacific Power, Renewable Adjustment Clause*, Docket No. UE 200, Order No. 08-548 at 19 (Nov. 14, 2008).

takes issue with Staff's use of a three-year average, stating that the 2024 property taxes, which drive down Staff's average, are a statistical outlier. PGE states that using both eight years of data and five years of data shows that a 1:1 assessed value factor is reasonable and that Staff's proposed adjustment is outside the middle quartiles of PGE's last eight years of property tax data.

PGE accepts the proposal to require an officer attestation.

2. Resolution

We decline to adopt AWEC's adjustments to reduce capital cost recovery in order to include here exclusively those FERC accounts included in docket UE 435. We find PGE's explanation that it was required to reclassify the same assets that were included in docket UE 435 into different FERC accounts under FERC Order No. 898 to be persuasive. Instead, the same type of assets that were reviewed for prudence in docket UE 435 and throughout this case have simply been classified under different FERC accounts.

We adopt Staff's adjustments to remove 100 percent of officer incentives and 50 percent of other incentives. On incentives, we have recently explained our policy:

> For officer incentive pay, the Commission has historically excluded from rates 100 percent of incentives, recognizing that those incentives depend upon meeting shareholder expectations. For non-officer incentives, we have previously distinguished between performance-based incentive pay and merit-based incentive pay, with performance-based programs reflecting benefits to shareholders from improved financial performance, and merit-based programs reflecting benefits to both customers and shareholders through lower costs of service. For performance-based programs, which provide more benefit to shareholders, we have disallowed 75 percent of non-officer incentive pay based on that increased shareholder benefit. We have required a 50 percent sharing of merit-based programs based on the mutual benefit to both customers and shareholders.[15]

Here, PGE did not describe in detail the bases of these incentives, and instead stated that "they were included in the RFP bid for Seaside, are reasonable costs related directly to the project, and have been prudently incurred."[16] Where the record does not support a specific determination about what percentage of these incentive programs benefits

[15] Docket No. UE 433, Order No. 24-447 at 56.
[16] PGE Opening Brief at 29.

shareholders versus ratepayers, we will apply the percentages outlined above to account for the value that incentive programs offer to shareholders.

As to meals and entertainment, we recently explained the meals and entertainment expense category includes a variety of expenses, such as "travel per diems under union contracts or meals for crews performing storm restoration work" as well as business dinners, which includes discretionary costs as well as non-discretionary costs. We declined to separate out the non-discretionary costs for separate treatment, finding that "sharing the costs of meals between ratepayers and the company implements a sound policy by incentivizing meals to be modest and necessary to business purposes."[17]

We see no reason to deviate from this sharing policy here. We are not persuaded by PGE's argument that meal costs are presumptively prudently incurred and recoverable because they were included in the RFP bid.

Finally, we allow PGE to use a 1:1 assessed value factor to calculate its property taxes, finding that PGE's use of additional data adds to the accuracy of its calculation. This is particularly true since 2024 appears to be an outlier year, skewing a three-year average.

Finally, we will require PGE to provide an officer attestation of final costs, as it has offered to do.

C. Net Variable Power Costs

PGE proposes to include an estimated $4.1m net variable power cost (NVPC) benefit in Schedule 120 rates for Seaside based on forecasted November and December 2025 NVPC. CUB recommends that we instead use PGE's confidential AUT filing benefits for 2025.

1. Positions of the Parties

a. CUB

CUB opposes PGE's approach of using November and December benefits for NVPC, asserting that using only November and December is an unrepresentative proxy. Instead, CUB states that the Commission should require PGE to use its 2025 AUT forecast, which provides a forecast for the benefits of Seaside over the full year (effectively, since the project's commercial operation date in July). Staff supports CUB's method of calculation.

[17] Docket No. UE 433, Order No. 24-447 at 65.

b. PGE

PGE asserts that based on the current schedule in this docket, it will collect Seaside revenue requirement in November and December and has matched the NVPC forecasted benefits to the period of cost recovery. PGE states it uses this same method for other resources with intra-year online dates. PGE argues that CUB's methodology is inconsistent with prior used methodologies. PGE also explains that it is not, as CUB contends, using November and December as a proxy—rather, November and December are the actual months that the rate will be in effect, so it is using a matching time period. Additionally, PGE states that section 7 of the MOU does not include O&M costs or NVPC, and notes that AWEC argues for the exclusion of O&M costs because they are not included in section 7 of the MOU. PGE contends that if O&M costs are excluded on this basis, NVPC should also be excluded.

2. Resolution

We order PGE to use the 2025 AUT benefits as CUB proposes. We find that doing so will provide customers the full benefit of Seaside's power costs for 2025. We emphasize that we make our decision here to preserve the full power cost benefit for customers in recognition of the overall benefit to the utility and its shareholders of reducing regulatory lag through a single-issue rate proceeding to include this capital project in rates.

D. Investment Tax Credits

PGE seeks to use $133.6 million as the value of the Seaside Investment Tax Credits (ITCs). It also proposes to amortize them over 20 years. CUB argues that the ITCs should be valued at $134.64 million, and that a tracker should be included in rates that would return value to customers if the ITC sales change in a way that would benefit customers by $500,000 or more.

1. Positions of the Parties

a. CUB

CUB argues that the Commission should include in rates the ITC value based on either CUB's proposal of $134.64 million or PGE's estimate of $133.6 million, subject to a future adjustment in the event of a material change to the benefit of ratepayers. CUB argues that to date, PGE has provided the most up-to-date estimate of ITC value, but not the "actual value of the ITCs." CUB asserts that PGE is still finalizing the agreement to sell the ITCs and, therefore, at Seaside's rate effective date, parties will still not know the

final or "actual" ITC value that will offset the Seaside costs."[18] CUB contends that once the actual value of the tax credits is known in 2026, should there be any material change (greater than $500,000) to the ITC amount (*i.e.*, face value) that would be to the benefit of ratepayers, PGE should adjust the ITC value in rates to reflect this change.

CUB states that its proposal is consistent with Oregon's used and useful law, arguing that Oregon courts have settled that the statute "precludes the PUC from allowing rates * * * that include a rate of return on capital assets that are not currently used for the provision of utility services."[19]

CUB also argues that ITCs should be depreciated over 20 years to match its estimated useful life of Seaside.

b. PGE

PGE seeks to include $133.6 million in rates for the Seaside ITCs and opposes CUB's tracker proposal. It states that it provided the most accurate, up-to-date number for ITC value when it filed its opening testimony and then updated that information based on updated information provided by PricewaterhouseCoopers (PWC) when filing its reply testimony. It notes that no party has disputed the validity of the PWC study as updated and therefore defends its proposal to use $133.6 million in rates. That number was also used in the Commission's approval of the Seaside ITC sale in docket UP 434.[20]

PGE opposes CUB's proposal to adjust the ITC value once actuals are known and instead would leave the $133.6 million in rates. First, it argues that CUB originally raised this proposal in its brief and did not submit any evidence in support. As a result, PGE states, there are no details regarding the proposal in the record and CUB's proposal fails the substantial evidence standard. Second, PGE argues that CUB's true-up proposal is one-sided, as it only seeks to true-up material changes that would be to the benefit of ratepayers. Third, it argues that rates are generally set prospectively in ratemaking and the risk is symmetrical—if the sales fall under PGE's estimations, they will not be trued up and the company will absorb the loss. Finally, PGE argues that the ITCs do not violate the used and useful law because they are not "facilities" within the meaning of the law.

PGE states that the ITCs should be depreciated over the same period that the project is depreciated over, which it recommends to be 15 years.

---

[18] CUB/203/1.
[19] *Citizens' Util. Bd. of Oregon v. Pub. Util. Commn. of Oregon*, 154 Or App 702, 712, 962 P2d 744, 752 (1998) ("Trojan I"); *see also Gearhart v. Pub. Util. Commn. of Oregon*, 299 P3d 533, 541 (2013), *aff'd*, 339 P3d 904 (2014).
[20] *In the Matter of Portland General Electric Company, Sale of a Utility Property*, Docket No. UP 434, Order No. 25-325 (Aug. 20, 2025).

2. Resolution

We find that the value of ITCs to include in Schedule 120 should be based on the authorized sale amount, which is what PGE included in its rebuttal testimony. We find that PGE has presented what appears to be a reasonable and evidence-based forecast of the ITC sales value. Ratemaking with a forward-looking test year inherently involves forecast of costs. We are unpersuaded there is any basis for establishing a true-up for this element. We are also concerned that this issue was raised late in the proceeding, leaving no opportunity to develop a record. Additionally, as PGE points out, the risk of using its authorized sales value is symmetrical—both ratepayers and PGE bear some risk that the ITC sales value will ultimately be different than forecasted in one direction or another. Finally, we find with PGE that ITCs do not constitute capital assets, and therefore, do not find that the "used and useful" precedent or our statutory obligation applies.

We also find that the ITCs should be amortized over 15 years because we find that to be a reasonable depreciable life for Seaside, as discussed below.

E. Load Forecast Period

In its original testimony, PGE used a 2025 load forecast as the basis for the rate spread costs of Seaside. Staff and CUB both responded, proposing that PGE use the 2026 load forecast instead. PGE replied that it would use November and December of 2025 and January through October of 2026, to align the load forecast with the months that the rates would be in effect. Staff and AWEC accept that compromise position; CUB does not and continues arguing for 2026 billing determinants.

1. Positions of the Parties

a. CUB

CUB argues that 2026 billing determinants fairly allocate the Seaside revenue requirement amongst the customer classes. CUB notes that between 2025 and 2026, the expected growth in Schedules 89 and 90 has far outpaced all other customer classes. Thus, CUB argues, using 2026 numbers to allocate load ensures that residential customers are not subsidizing large industrial customers based on outdated numbers. CUB points out that under the MOU, the next rate effective date will not happen before May 1, 2027. Therefore, the rates will be based on outdated 2025 numbers if PGE's proposal to use, in part, November and December of 2025 is adopted.

b. PGE

PGE is proposing to use a hybrid annualized load forecast, where November and December 2025 are used for the first two months the rates are in effect, then the 2026 load forecast is used for January through October 2026. PGE states that this proposed hybrid load forecast aligns the months the rates are in effect with the appropriate year load forecast and thus results in the most reasonable rate spread for all customers.

2. Resolution

We find that using the load forecast for November and December 2025 for the first two months the rates are in effect, then the 2026 load forecast for January through October of 2026 is a reasonable approach. PGE's proposal most accurately aligns the periods the rates are in effect with the load forecast and thus will result in the most reasonable rate spread.

CUB states that the rates in question will be in effect through at least May 2027,[21] and thus that the 2026 load forecast will be closer to accurate for the whole period the rates are in effect. However, PGE's filed Schedule 120 states:

> The costs for projects included under this schedule will be updated annually as provided above and will continue to be recovered under Schedule 120 until such time as the costs are included in base rates or the project is no longer in service.[22]

We find that PGE should also update its load forecast at the time of its annual update filing, as specified in its tariff and to be made so that the rate adjustment is effective on October 31 each year, avoiding the staleness issue raised by CUB.

F. Earnings Test

1. Positions of the Parties

a. AWEC

AWEC recommends that an earnings test be applied to the Seaside ARM at 100 basis points less than PGE's authorized (ROE to ensure that PGE does not over-recover from

[21] PGE/302, Batzler-Pleasant/4. PGE agreed in the MOU not to file a general rate case with an effective date before May 2027.
[22] PGE Initial Utility Filing (Advice No. 25-17), Original Sheet No. 120-2.

customers. AWEC states that rates are ordinarily set holistically to develop an overall revenue requirement that gives the utility a reasonable opportunity to earn a fair return on investment for its shareholders. Conversely, if in a single-issue ratemaking proceeding such as the current proceeding, the Commission only looks at the cost at issue and not the utility's earnings overall, it is possible that the Commission will approve rates that allow PGE to earn above what the Commission has determined is fair and reasonable. An earnings test, AWEC argues, is warranted to protect against this possibility.

AWEC proposes an earnings test 100 basis points below the authorized ROE "[c]onsistent with what the Commission has approved for PGE's Power Cost Adjustment Mechanism."[23] AWEC also states that it will ensure that PGE does not over-earn and exacerbate the rate pressures incurred by customers in recent years.

b. Staff

Staff also supports an earnings test in this proceeding. However, it states that it does not believe it is necessary to impose an earnings test threshold of 100 basis points below the utility's authorized ROE for purposes of this earnings test. Staff recommends an earnings test threshold closer to PGE's authorized ROE.

c. PGE

PGE opposes an earnings test of any kind. It rejects AWEC's proposed earnings test as "punitive," stating it is a collateral attack on the 9.34 percent ROE PGE was authorized to earn beginning in 2025 and is inconsistent with precedent. It notes that in Renewable Automatic Adjustment Clause (RAAC) proceedings, which are similar single-issue ratemaking proceedings, parties have not proposed, and the Commission does not include an earnings test. It also states that AWEC did not describe why it chose a 100 basis points earnings test, noting that when questioned further about it at the hearing, AWEC's witnesses stated that the 100 basis point earnings test was based only on his judgment. Finally, PGE argues that AWEC's proposal deprives PGE of having a reasonable opportunity to earn its authorized ROE.

2. Resolution

We adopt an earnings test set at PGE's authorized rate of return (ROR). We find that an earnings test will serve as an important check to ensure that this rate adjustment mechanism does not result in additional cost recovery when the company is otherwise

[23] AWEC Opening Brief at 11 n 42 (citing Docket Nos. UE 180, UE 181, and UE 184, Order No. 07-015 at 2 (Jan. 12, 2007)).

able to achieve its authorized ROR. We do not, however, adopt an earnings test threshold below PGE's authorized ROR, which was reviewed quite recently.

In order to implement the earnings test, we direct PGE to establish a deferral to track its Schedule 120 revenues. Each year, PGE will file the results of the earnings test on December 1, subsequent to its annual update filing, to be reviewed by Staff. The earnings test will cover the 12 months ending October 31, 2026, and any excess earnings will be refunded via a Schedule 120 adjustment following the earnings test.

G. Depreciable Life and Depreciation Expense

PGE seeks to depreciate the battery storage assets at Seaside over 15 years and the computer equipment over 5 years. AWEC argues that the depreciable life of the project should be 20 years.

1. Positions of the Parties

a. AWEC

AWEC argues that PGE should use a 20-year depreciable life for Seaside instead of the 15-year depreciable life included in PGE's filing. AWEC points to confidential evidence that it argues supports a 20-year depreciable life. It also states that the "[c]ompany is in the process of negotiating a long-term service agreement with warranty agreements "that provide guarantees that the facility will operate for 20 years."[24] Accordingly, AWEC states that a 20-year depreciable life should be used to more accurately reflect the useful life of the facility.

AWEC also argues that, by reclassifying certain capital costs to computer hardware, which has a substantially shorter five-year depreciable life, PGE violated the MOU, which limits capital costs to those recovered in UE 435. Specifically, the depreciation rate in this case rose from 5.27 percent in docket UE 435 to 6.35 percent, increasing Seaside's revenue requirement by approximately $1.51 million.

AWEC argues that the MOU dictates the costs PGE can recover for Seaside in this docket and limits recoverable capital costs to those "provided for Seaside in UE 435 PGE Exhibit 2401." AWEC explains capital costs is a defined term in the MOU and includes "depreciation expense." AWEC also contends that the MOU specifies that the calculation of depreciation expense must be "consistent with the method used for setting prices in UE 435."

[24] AWEC/102, Mullins/5 (PGE's Resp. to AWEC Data Request 7)

b. PGE

PGE argues that a 15-year depreciable life is appropriate for Seaside. PGE states it used multiple expert opinions and depreciation studies to determine that a 15-year depreciable life is appropriate and relied on survivor curves for its analysis. In particular, the energy storage equipment that makes up the majority of the costs of Seaside has a 15-year survivor curve. The survivor curve is a reflection of the average service life of the assets. PGE also states that its depreciable life is consistent with the terms of the Seaside long-term service agreement and warranties.

As to the reclassification of computer equipment into a separate category with a five-year depreciable life, PGE states:

> PGE updated its assignment of plant amounts after receiving a more detailed study from 1898 & Co.—the engineer of the Seaside project. The updated asset categorization by 1898 & Co. provided more details about the FERC account assignment of different plant amounts. To summarize, PGE's depreciation is based on a general study by Gannett and updated assignment of costs by 1898 & Co. in order to reflect the most up to date information available to PGE.[25]

PGE argues that AWEC misreads the MOU by inserting the term "each" before "Capital Cost," and that its aggregate capital costs do not exceed the capital costs it included in docket UE 435. PGE states that because "Capital Costs" are defined collectively in paragraph 1 of the MOU, inclusive of depreciation expense, when capital costs is used in paragraph 7a, the only plain reading is to view them as a whole, meaning that total capital costs in this docket cannot exceed the total capital costs in docket UE 435. Therefore, PGE's changes to its specific depreciation rates are not in violation of the MOU.

2. Resolution

We find that 15 years is a reasonable depreciable life for Seaside. We are persuaded by PGE's expert studies that a 15-year life for the battery components and a 5-year life for the computer components is reasonable. This is consistent with Commission precedent favoring use of survivor curves.[26] PGE is the only party to have proffered that type of evidence in this proceeding, and from it, it appears that 15 years is an appropriate

[25] PGE Opening Brief at 36 (internal citations omitted).
[26] *In the Matter of Avista Corporation, dba Avista Utilities, Application to Revise Book Depreciation Rates and Request Deferred Accounting*, Docket No. UM 1933, Order No. 18-451 at 3 (Dec. 4, 2018); *In the Matter of Portland General Electric Company, 2015 Detailed Depreciation study of Electric Utility Properties*, Docket No. UM 1809, Order No. 17-365 at 2 (stating "[d]epreciation rates are derived from (1) the combination of survival curve and projection life and (2) the net salvage rates.")

depreciable life for the energy storage facility and 5 years is appropriate for the computer equipment. Given this, we are not swayed otherwise by the evidence presented that the facility will operate for 20 years and find PGE's arguments to the contrary persuasive.

H. Inclusion of O&M Expenses

PGE requests approximately $3.1 million in production O&M expense associated with Seaside. AWEC opposes this request and asks that the Commission exclude O&M recovery from Schedule 120. If O&M costs are recoverable, Staff seeks to exclude PGE's property tax expenses from rates, which is a $46,691.53 reduction to revenue requirement.

1. Positions of the Parties

a. AWEC

AWEC contends that Section 10 of the MOU limits recovery to items listed in Section 7, which does not list ongoing O&M expenses. Thus, AWEC states the MOU expressly excludes O&M costs from recovery in this proceeding. AWEC also argues that recovery of O&M is inappropriate in this single-issue filing because it is impossible to evaluate the totality of the O&M amounts currently included in rates.

b. Staff

Staff agrees with AWEC that O&M should be excluded from this proceeding. It states that, unlike capital costs, which by their nature are incremental to costs already included in rates, the same is not necessarily true of operating costs. Instead, Staff states, the "operating costs" for Seaside that PGE included in its revenue requirement in this case may already be captured in PGE's rates. Or, it argues, PGE's expenses to operate Seaside may be offset by reductions in expenses in other areas of PGE's operations. Staff contends that, conversely, a general rate proceeding allows examination of all costs to determine the appropriate level of operating expenses. Staff asserts that there is no opportunity for such a review in this docket.

In the event the Commission allows PGE to include operating expenses in the revenue requirement for the Seaside ARM, Staff recommends adjustments to PGE's operating expenses to remove expense for property insurance generally covered in PGE's general rates through Property All Risk insurance. Staff states that PGE did not meet its burden of proving that that was actually done and that the UE 435 insurance recovery may actually have included costs related to Seaside.

c. PGE

PGE argues that a utility generally is allowed to recover in customer rates all costs, including O&M costs, that the utility prudently incurs. It states that it only included incremental O&M costs in its request for recovery in order to recover the O&M costs directly related to Seaside. This includes insurance expense, maintenance costs, and fire suppression costs, among other costs directly related to Seaside's ongoing operations. PGE points out that RAAC dockets include recovery of O&M costs, despite being single-issue dockets.

PGE also disputes AWEC's reading of the MOU. PGE states that in paragraph three of the MOU, Alternative Rate Mechanism is defined as meaning "tariff filings to recover the costs of the Seaside Battery Storage Project." It also argues that AWEC has violated Section 10 of the MOU, which provides that "[i]f the signatories disagree whether an issue or cost recovery item raised by a party is within the scope of the MOU, they will convene to determine next steps." PGE says that no party has convened such a meeting, meaning the MOU is no longer binding on any signatory.

PGE also argues that section 7 of the MOU does not include NVPC either, so if O&M costs are excluded, NVPC—as benefit to customers—should also be excluded.

As to property insurance, PGE states that it described in testimony that the "forecast Seaside insurance amounts in UE 435 were removed from PGE's base revenue requirement and included within the isolated revenue requirement for Seaside."[27] Accordingly, it states that the record evidence indisputably shows that insurance is properly recoverable in this proceeding.

2. Resolution

We are persuaded that the lack of ability to review whether O&M costs are truly incremental to general spending is sufficient to justify their exclusion here. While PGE asserts the costs are incremental,[28] the company did not present evidence demonstrating that they are incremental or that operating costs have not decreased in other areas of operations. Additionally, there is not, here, the opportunity to review other O&M costs for decreases. We decline to allow PGE to include O&M costs in this adjustment mechanism on this basis.

[27] PGE/402 Tab UE 435 vs UE 455_Total, Line 22, Column B (demonstrating that incremental insurance for Seaside was included within the revenue requirement request in UE 435).
[28] PGE/400, Batzler-Mead/30.

We note that while the RAAC tariffs for both PGE and PacifiCorp do allow recovery of operating costs for the projects recoverable under those tariffs, those mechanisms were adopted pursuant to ORS 469A.120(2)(a), which allows recovery of prudent costs related to the project. Here, we are establishing a rate mechanism to allow PGE to bring in capital costs and limit its own regulatory lag, quickly following a general rate increase, while mitigating the costs to customers that would result from a single-issue cost recovery filing. We find that recovery of O&M costs are not justified under these circumstances. We are particularly disinclined to allow for the recovery of O&M costs in a single-issue capital cost recovery mechanism where there is no opportunity to review other O&M costs.

While we do not foreclose the question of whether we would allow recovery of O&M costs in all future single-issue filings, we would expect a robust demonstration that the O&M costs in question are incremental to the costs included in base rates.

Because we do not include O&M expenses in the Schedule 120 revenue requirement, we do not reach the dispute regarding insurance.

I. Accumulated Depreciation and Accumulated Deferred Income Tax (ADIT)

PGE calculated accumulated depreciation expense of $35,392,432.54. This consists of $25,095,110.72 of annualized depreciation expense associated with Seaside and $10,297,321.83 of depreciation reserve offsets. AWEC and Staff argue that the Commission should reduce the revenue requirement associated with accumulated depreciation by some $581,000 to account for an additional four months of depreciation between the in-service date and the rate effective date.

The parties also dispute PGE's proposed ADIT calculation, with AWEC and Staff arguing that it should be increased by $15.2 million. All parties agree that accumulated depreciation and ADIT should be calculated in the same manner.

1. Positions of the Parties

a. Staff and AWEC

Both Staff and AWEC argue that the amount of accumulated depreciation included in PGE's rate base should be increased by the depreciation accumulated between Seaside's in-service date and October 31, 2025, to be compliant with the terms of the MOU. The MOU specifies that depreciation is to be calculated as of "10/31/2025." PGE, they state, determines accumulated depreciation for purposes of revenue requirement by taking the rate base balance, *i.e.*, "snapshot," as of a calculation date and adding it to an annualized amount. While they do not oppose the "snapshot" method, they believe that snapshot

should be taken as of October 31, 2025—not the project's in-service date. An additional year of accumulated depreciation would then be applied, to reflect the year of accumulated depreciation in rates.

b. PGE

PGE states that it followed the same methodology that it used to calculate depreciation in docket UE 435. In particular, it states it annualized the accumulated depreciation over 12 months, from November 1, 2024, through October 31, 2025, to match depreciation expense, which is the same manner as the UE 435 calculation. PGE contends that AWEC and Staff's interpretation is inconsistent with the MOU by failing to calculate depreciation in the same manner as it was calculated in UE 435, which the MOU proscribes. PGE states:

> To summarize, in docket UE 435, PGE had its rate base calculated as of December 31, 2024—the day prior to the rate effective date—but did not use the balance of accumulated depreciation as of December 31, 2024 as the beginning balance of accumulated depreciation before annualization is added on. Rather, In UE 435, PGE calculated accumulated depreciation of the new assets added to base plant balance by beginning those balances on the day the new assets were placed in service, capturing the actual accumulated depreciation that occurred during the review period, and then annualizing that amount. The review period had an end date and rate effective date of December 31, 2024.[29]

PGE states that it followed the same methodology here.

2. Resolution

Seaside went into service on July 1, 2025, which means that PGE began depreciating the costs of the project on that date. While the parties failed to reach agreement on exactly how accumulated depreciation will be calculated, they did agree that a year of accumulated depreciation would be annualized and incorporated into the rate base calculation, consistent with the approach in PGE's most recent general rate cases. We will apply that year of accumulated depreciation from the in-service date of the project. In the context of this particular rate adjustment mechanism, we will not require the company to absorb an additional four months of depreciation based on the timing of the effective date of the rates. In doing so, we recognize that the annual updates to the revenue requirement in Schedule 120 will reduce the regulatory lag associated with accumulated depreciation that would typically benefit the company in between general

[29] PGE Closing Brief at 32-33.

rate cases and thus reduce costs to customers. We also point to the other adjustments we make to the mechanism to benefit customers, such as use of all 2025 benefits to calculate NVPC.

ADIT should be calculated using the same method as for accumulated depreciation.

III. ORDER

IT IS ORDERED that:

1. Advice No. 25-17, filed on May 30, 2025, is permanently suspended.

2. Portland General Electric must file a new Schedule 120 consistent with this order by 3:00 p.m. on October 27. 2025, to be effective October 31, 2025.

Made, entered, and effective Oct 21 2025.

Letha Tawney
Chair

Les Perkins
Commissioner

Karin Power
Commissioner

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 Court of Appeals in compliance with ORS 183.480 through 183.484.