

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1147

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Staff Request to Open an Investigation
Related to Deferred Accounting.

ORDER

DISPOSITION: STAFF'S MOTION TO MODIFY ORDER NO. 08-263
GRANTED

I. BACKGROUND

The Public Utility Commission of Oregon (Commission) originally opened this docket to reevaluate policies regarding the application of the deferred accounting statute, ORS 757.259. Numerous issues within this scope were addressed over three phases of the proceeding. One identified issue was the proper interest rate to be applied to a utility's deferred accounts. Historically, a utility's deferred accounts earned interest based on that utility's authorized rate of return (AROR), as approved in the utility's most recent general rate case.

In the first phase (Phase I) of this docket, the Commission declined to alter this practice and apply an interest rate that is different than a utility's AROR.¹ Yet the Commission authorized further investigation regarding whether a different interest rate should be applied to deferred accounts during the discrete period of amortization.

In the second phase (Phase II) of this docket, the Commission determined that a rate other than a utility's AROR should be applied to deferred accounts during the period of amortization.² The Commission authorized additional investigation to determine what that rate should be. As guidance, the Commission indicated that the rate of return on amortized deferred accounts should match, to the extent possible, the lower level of risk associated with carrying nearly guaranteed amortized funds on a short-term basis.

¹ See Order No. 05-1070 at 13-14.

² See Order No. 06-507 at 4.

In the third phase (Phase III) of this docket, the Commission considered what rate of interest on amortized deferred accounts would best reflect the short-term, fixed nature of amortized deferred accounts. In Order No. 08-263, the Commission adopted an interest rate for all amortized deferred accounts that was based on a blended one-, three- and five-year Treasury rate plus 100 basis points, calculated by the tenth day of January each year, based on Treasury rates published on the first two Thursdays in the preceding December (Blended Treasury Rate). The Blended Treasury Rate was adopted with the understanding, however, that it could be adjusted in the future based on actual data and experience.

On April 12, 2010, Commission Staff (Staff) filed a motion to modify Order No. 08-263. On April 27, 2010, Portland General Electric Company (PGE) filed a response. On May 4, 2010, Staff filed a reply. No other party filed comments.

II. DISCUSSION

Staff states that the application of the interest rate adopted in Order No. 08-263 is problematic in at least one respect. Due to the inability to accurately predict the full amortization period for deferred amounts—because the actual rate of amortization is dependent upon energy consumption—utilities inevitably under- or over-collect deferred amounts. As a result, a utility may have, at any given time, multiple deferred accounts with small balances, whether negative or positive, that may be subject to varying interest rates. In the past, utilities would have combined small residual deferral amounts into one deferred account.³ This approach is now impractical, however, due to the varying interest rates applied to deferral accounts under Order No. 08-263.

To restore the utility practice of combining small under- and over-collections of almost fully amortized deferral accounts, Staff recommends that the Commission modify Order No. 08-263 to permit a utility to create a residual deferral account subject to one Blended Treasury Rate that is updated in January of each year. Staff also recommends that Order No. 08-263 be modified to specify that any amount remaining after the end of a designated amortization period in a balancing account may be rolled into, and combined with, the amount approved for amortization over the next period of time. “In other words,” Staff states, “the residual amount will be subject to an updated Blended Treasury Rate, as opposed to the Blended Treasury Rate in effect at the time the utility received authorization to amortize the original amount.”⁴

³ As example, Staff explains that the residual deferral amount problem is perpetual for natural gas utilities collecting certain purchased gas costs under a Commission-approved Purchased Gas Adjustment (PGA) mechanism. Under the PGA mechanism, a utility defers approved purchased costs for the preceding 12-month period and amortizes an approved amount over a subsequent 12-month period by adjusting the rate per therm charged the utility’s customers. Because the consumption of the utility’s customers cannot be accurately predicted, the amortized amount will be either under- or over-collected during the amortization period. In the past, the gas utilities rolled the differential into the next PGA deferral but cannot now do so because each year’s PGA has a different interest rate applied to it under Order No. 08-263. Instead, a gas utility must separately track a prior PGA with a residual amount after the 12-month amortization period. Staff’s Motion at 3.

⁴ Staff’s Motion at 4.

Although supportive of Staff's proposal, PGE asks for clarification on two issues. First, PGE questions whether the roll forward treatment would be applied to utility Bonneville Power Administration (BPA) residential exchange balancing accounts. PGE states:

Unlike the PGA mechanism Staff describes, the BPA balancing account accrues differences between amounts received from BPA and the BPA credits passed through to customers. Unlike the PGA mechanism Staff describes, the BPA balancing is not subject to an annual or bi-annual request for amortization but rather tracks monthly differences and is amortized through an on-going tariff. Nevertheless, we see no substantive difference between the PGA-type balancing account and the BPA residential exchange balancing account. Accordingly, we request clarification that Staff's proposal applies to PGE's BPA residential exchange balancing account and any other similar balancing account.⁵

In its reply, Staff agrees that it is appropriate to expand the proposed residual account treatment to the Residential Exchange Program balancing accounts.

Second, PGE seeks clarification of Staff's proposed ceiling, which is described in Staff's motion as follows:

Staff recommends that "each utility should be allowed to transfer deferred amounts into the residual account when the amounts in a deferred account balance fall below" a ceiling created for each utility.⁶ Staff recommends ceilings that equal half of one percentage point (0.05%) of each utility's retail operating revenue in the prior calendar year.⁷

PGE interprets Staff's ceiling proposal to apply to amounts transferred into residual accounts, as opposed to amounts rolled forward in a balancing account, but asks for confirmation. PGE characterizes the ceiling as a "cap," and indicates that if the cap is intended to apply in both situations, the cap should be increased. PGE also suggests that utilities should be allowed to request a waiver of the cap if the circumstances are warranted. PGE also requests clarification on the application of the ceiling, asking if a utility triggers a cap, "[w]ould the utility be allowed to include residual balances up to the cap?" PGE also asks, "[i]f so, how should the utility decide which balances to include in the residual account and which to exclude?"⁸

⁵ PGE's Response at 2.

⁶ Staff's Motion at 4.

⁷ *Id.*

⁸ *Id.*

In reply comments, Staff asserts that the proposed ceiling is not a cap. Staff indicates that PGE's cap waiver proposal is, therefore, unnecessary. Staff clarifies the ceiling, as follows:

The .05% discussed in Staff's motion is to delineate deferred accounts that may be rolled into the residual account. Under Staff's proposal, when deferred accounts are equal to or less than .05% of a utility's retail operating revenues in the previous calendar year, the utility may roll the deferred account to the residual account. Staff does not propose to otherwise cap the amount of money that may be placed in the residual account.⁹

III. RESOLUTION

Our goal when we adopted a new interest rate to be applied to amortized deferred accounts was to better reflect the nature of these accounts. At the time, we acknowledged that experience might better inform us.

Staff identified and proposed a needed refinement. Staff recommends we modify Order No. 08-263 to permit each utility to create a deferred account for the purpose of rolling any residual amount left at the end of the amortization period of any other deferred account so long as the amount is equal to or less than .05 percent of a utility's retail operating revenues in the previous calendar year. The residual deferred account would be subject to one Blended Treasury Rate that is updated in January of each year. Staff also recommends we permit any amount remaining after the end of a designated amortization period in a balancing account subject to annual or biannual requests for amortization, such as a PGA, to be rolled into, and combined with, the amount approved for amortization over the next period of time, at the updated Blended Treasury Rate. Staff also agrees with PGE's recommendation to treat qualifying residual amounts in the utility's BPA residential exchange balancing accounts the same. No party opposed Staff's proposal.

We are persuaded that actual experience with the application of the Blended Treasury Rate to deferred accounts during amortization demonstrates a need to a modify Order No. 08-263. We grant Staff's Motion, as the Motion was clarified and modified.

⁹ Staff's Reply, p. 1.

IV. ORDER

IT IS ORDERED that

1. Each utility may create a deferred account for the purpose of rolling any residual amount left at the end of the amortization period of any other deferred account that is subject to annual or biannual requests for amortization—so long as the amount is equal to or less than .05 percent of a utility’s retail operating revenues in the previous calendar year. The residual deferred account would be subject to one Blended Treasury Rate that is updated in January of each year.
2. Any amount remaining after the end of a designated amortization period in a balancing account, such as a PGA, may be rolled into, and combined with, the amount approved for amortization over the next period of time, at the updated Blended Treasury Rate.
3. A BPA residential exchange balancing account will be subject to one Blended Treasury Rate that is updated in January of each year.

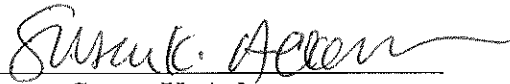
Made, entered, and effective JUL 28 2010.



Ray Baum
Chairman



John Savage
Commissioner



Susan K. Ackerman
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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.