ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 28, 2024

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: May 9, 2024

TO: Public Utility Commission

FROM: Kathy Zarate and Marc Hellman

THROUGH: Bryan Conway and Russell Beitzel **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket Nos. UM 2019, UM 2019(1), and UM 2019(2)
Initial Authorization and Reauthorization of deferred accounting for costs related to Wildfire Risk Mitigation Measures.

STAFF RECOMMENDATION:

Staff recommends the Commission deny Portland General Electric (PGE or Company) three requests for deferral of the incremental costs associated with implementing new wildfire risk mitigation measures:

- UM 2019 – beginning May 31, 2019, and ending May 30, 2020;
- UM 2019(1) – beginning July 1, 2020, ending June 30, 2021; and
- UM 2019(2) – beginning July 1, 2021, ending December 31, 2021.

DISCUSSION:

Issue

Whether the Commission should approve PGE's requests for authorization and reauthorization to defer costs associated with implementing wildfire risk mitigation measures.

Applicable Law

In accordance with ORS 757.259, utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs. OAR 860-027-0300(4) requires the utility to provide certain information in an application to defer, such as reason for the deferral and estimated amount of the deferral.

Analysis

Background

On May 31, 2019, PGE filed its initial application to defer costs of wildfire mitigation measures not otherwise recovered in PGE's approved revenue requirement. At the time of the application, PGE estimated the deferral would be for approximately $2.5 million, $2 million of which would be spent on vegetation inspection and clearing around utility poles in fire high consequence areas. PGE filed a second application for deferral on July 1, 2020. In that application, PGE estimated it would incur approximately $5 million during the 12-month deferral period. PGE filed a third application on July 1, 2021, for the 12-month period beginning July 1, 2021, where PGE estimated that its operations and maintenance (O&M) expenditures would total $7 million.[1]

Treatment of PGE's wildfire mitigation related costs incurred after January 1, 2022, have been addressed in other filings and WMP dockets and are not at issue.[2] Table 1 summarizes the estimated amounts for each deferral request and the actual expenses incurred by the utility.

Table 1: Summary of Costs in UM 2019, 2019(1), and 2019(2).

Time Period	**Estimated Expenses** (million)	**Expenses Incurred** (million)
May 31, 2019 – May 30, 2020	$2.5	$2.397
July 1, 2020 – June 30, 2021	$5	$1.939
July 1, 2021 – Dec. 31, 2021	$7	$5.316

[1] Source is PGE's response to IR #2, Attachment A.

[2] The Commission adopted the Staff recommendations presented at the October 17, 2023, Public Meeting dealing with wildfire O&M for the 2022 calendar year. Wildfire mitigation related costs incurred subsequent to May 2022, are recovered in the amount of $15.4 million, $23.6 million annualized, pursuant to the ratemaking determinations made in PGE's General Rate Case, Docket No. UE 394.
Since the Commission's order in Docket No. UE 394, legislation (Senate Bill 762) adopted in 2021 and codified at ORS 757.960, et. seq., established requirements for utilities and the Commission related to wildfire mitigation planning, activities, and cost recovery. Under ORS 757.963 and implementing regulations, PGE is required to develop and file for Commission review a wildfire protection plan (WPP). Under ORS 757.963(8), the reasonable costs to develop, implement or operate a wildfire protection plan are recoverable in the rates of the public utility from all customers through a filing under ORS 757.210 to ORS 757.220.

The Commission applies a two-pronged analysis to determine whether to approve requests for deferral filed pursuant to ORS 757.259(e). First, the Commission determines whether the request satisfies the statutory criteria in that the deferral either minimizes the frequency or level of rate changes or appropriately matches the costs and benefits received by ratepayers.[3] If the deferral request satisfies the statutory criteria, the Commission reviews to determine whether the deferral satisfies its discretionary criteria by considering two interrelated factors, the type of event that caused the deferral and the magnitude of the event's effect.[4]

With respect to the type of event causing the deferral, the Commission draws a distinction between risks that can be predicted to occur as part of the normal course of events, (stochastic risks), and risks that are not susceptible to prediction and quantification (scenario risks). Risks that are reasonably predictable and quantifiable are generally not appropriate for deferral unless the second consideration, the magnitude of the financial impact of the event on the utility, is substantial enough to warrant deferral.[5] If the event was neither modeled nor foreseen, or if there are extenuating circumstances that were not foreseeable (a "scenario event"), the magnitude standard is lower—it must be *material*.[6]

The need for enhanced wildfire mitigation measures such as increased vegetation management around fire poles (the primary expenditure in the first deferral) and other mitigation measures is considered a foreseeable, stochastic risk.

Staff anticipates that PGE will assert that climate change fundamentally altered the risk of devastating wildfires in the years before it filed its deferral application, and this increase was unforeseen when its previous rates were established.

However, this argument is not supported by PGE's May 31, 2019, application to defer. In its May 31, 2019, filing, PGE states its decision to implement additional wildfire mitigation measures was informed by "learnings from peers in the energy and forestry industries."[7] Given its knowledge of the increasing risk, PGE could have filed a rate case in Oregon to incorporate costs of wildfire mitigation measures into its revenue requirement prior to 2019. PGE did file a rate case in 2021, Docket No. UE 394, with new

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[3] *In the Matter of Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting*, Docket No. UM 1147, Order No. 05-1070, p. 2, (October 5, 2005).
[4] Id., pp. 2-3.
[5] Id. p. 3.
[6] Id., *See also, In the Matter of Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting*, Docket No. UM 1147, Order No. 05-1070, p. 7, (October 5, 2005).
[7] UM 2019 Application for Deferral of Costs Related to Wildfire Risk Mitigation Measures, p. 3 (May 31, 2019).

rates going into effect May 2022. The annualized wildfire O&M costs included in UE 394 was $23.6 million.

The Commission has previously quantified “substantial” and “material” harm to a utility and applied those quantifications to stochastic and scenario events. In Order No. 04-108, entered in UM 1071, the Commission articulated the distinction between stochastic and scenario risks, and explained that a 250 basis points deadband on ROE was also useful as a measuring stick to determine whether the financial impact of a stochastic event is substantial enough to warrant deferral in the first place:

> We find that the measure of normal risk applied to a scenario event should be contextual, reflecting the pertinent range of risk, and considering whether the scenario event is isolated, or combined with another scenario event or other extenuating circumstances.[8]

In denying a 2016 application for deferred accounting related to pension costs, the Commission stated, “[t]he impact of the excess FAS 87 expense on [Portland General Electric Company's] earnings was 18 basis points in 2012 and 86 basis points in 2013, well within the bounds of acceptable risk between rate cases. Further, the deferral amounts represent less than one percent of PGE's annual revenues for the years at issue.”[9]

More recently, the Commission denied PGE’s application to defer certain 2017 storm costs concluding that the financial impact of 36 basis points on PGE's ROE was neither substantial nor material.[10]

Based on the Commission’s precedent, the financial impact of the amounts at issue in PGE’s three deferral applications is not sufficient to warrant deferral, whether the underlying risk is classified as stochastic or scenario.

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[8] *In the Matter of Portland General Electric Company Application for Deferral Accounting of Excess Power Costs Due to Plant Outage*, Docket No. 1234, Order No. 07-049, p. 19 (February 12, 2007).

[9] In the Matter of Portland General Electric Company Application for Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions, Docket No. UM 1623, Order No. 16-257, p. 4 (July 7, 2016).

[10] *In the Matter of Portland General Electric Company Application for Deferral of Storm-Related Restoration Costs*, Docket No. UM 1817, Order No. 19-274 at 12-13 (Aug 19, 2019).

Table 2: Summary of Financial Impact in UM 2019, 2019(1), and 2019(2).

Time Period	**Expenses Incurred** (million)	**Financial Impact** (basis points ROE)
May 31, 2019 – May 30, 2020	$2.397	9.7
July 1, 2020 – June 30, 2021	$1.939	7.7
July 1, 2021 – Dec. 31, 2021	$5.316	19.6

For calendar 2019, 2020, and 2021, according to Staff's Results of Operations Reports, 100 basis points ROE equals $24.7 million, $25.1 million, and $27.1 million, respectively. The financial impact of the amounts requested for deferral are well within the range of reasonable risk a utility can be expected to bear between rate cases.

Staff anticipates that PGE will argue that deferral of the amounts at issue is appropriate to incentivize appropriate utility behavior. Staff agrees that incenting utility behavior can be an appropriate use of the Commission's deferral authority. However, Staff does not agree that it is appropriate in these circumstances. The expenses at issue are for activities that are fundamental to PGE's statutory obligation to provide safe and adequate service. It should not be necessary to employ extraordinary ratemaking processes to incent PGE to spend money for what PGE believes to be necessary for an appropriate level of safety.

Staff conducted a similar analysis and reached similar conclusions in PacifiCorp's wildfire deferral filings. At the April 18, 2023, Public Meeting, Staff presented its analysis and recommendations to deny PacifiCorp's deferral application for wildfire costs. The Commission adopted the Saff recommendation in Order 23-148. Staff sees no reason for these PGE deferral filings to deviate from its conclusions reached in the PacifiCorp docketed filings.

PGE's Position
Staff shared a draft copy of this memo on February 6, 2024, to provide PGE an opportunity to prepare its comments on this subject matter. Drafts were also sent to AWEC and CUB. While CUB did not respond, AWEC did note that it supported the Staff recommendation. Staff was informed that PGE would not oppose the Staff recommendation.

<u>Conclusion</u>

The financial impact of the deferrals is not sufficient to warrant deferral whether the underlying is classified as stochastic risk or scenario risk. Accordingly, Staff recommends denial of the requests.

PROPOSED COMMISSION MOTION:

Deny PGE's three requests for the deferral of the incremental costs associated with implementing new wildfire risk mitigation measures:

UM 2019 – beginning May 31, 2019, ending May 30, 2020;
UM 2019(1) – beginning July 1, 2020, ending June 30, 2021; and
UM 2019(2) – beginning July 1, 2021, ending December 31, 2021.