

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 8, 2008**

REGULAR  X  CONSENT \_\_\_\_\_ EFFECTIVE DATE  July 1, 2007

DATE: March 11, 2008

TO: Public Utility Commission

FROM: Carla Owings

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1328) Accounting order to classify expenses associated with Advanced Metering Infrastructure project as capital costs.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Portland General Electric's request to classify expenditures related to the new Advanced Metering Infrastructure project as capital costs effective July 1, 2007, until the tariff effective date, expected to be June 1, 2008, subject to Staff's review of such costs.

**DISCUSSION:**

On June 29, 2007, Portland General Electric (PGE or the Company) filed an application requesting authorization to classify expenditures associated with PGE's new Advanced Metering Infrastructure (AMI) project as capital costs, effective July 1, 2007.

On March 7, 2007, PGE filed a proposed tariff to begin recovery of the AMI costs; however, the regulatory process was still in the investigation phase of the AMI project and there were unforeseen delays. The tariff was not implemented in June, as originally filed and is not currently projected to be implemented until June 1, 2008, subject to Commission approval (See Docket No. UE 189). However, PGE has begun, and will continue to work on, preparation for AMI deployment, including the testing phase of the project. These costs are incremental to project management cost and O&M implemented in the UE 180 rate case.

The AMI system consists of approximately 800,000 solid-state electronic meters, a communication system to transmit the data, and a communication server or computer

system that receives and stores data from the meter and sends commands to the meter. This two-way system will enable the utility to send instructions to the meter or control device at the customer's premises. The Company estimates that the new system will create annual O&M savings of approximately \$18.2 million in its first full calendar year after deployment is completed.

In Docket No.UE 189, PGE, Staff, Oregon Department of Energy, Community Assistance Partnership of Oregon and NW Natural filed Testimony and a Joint Stipulation on November 21, 2007, related to the \$132.2 million cost of the AMI project. On December 21, 2007, Citizens' Utility Board and Industrial Customers of Northwest Utilities filed response testimony regarding PGE's AMI proposal. On January 7, 2008, rebuttal testimony was filed by Staff and PGE. At the time of this writing, the docket is still pending before the Commission.

PGE requests approval to reclassify these costs as capital associated with the AMI projected and recorded in FERC Account No. 182.3, Other Regulatory Assets, pursuant to ORS 757.120 and 757.125.

Originally, the Company believed that it would be allowed to classify such costs as capital since these expenditures are costs associated with testing, preparation and design of the new AMI system. However, after a review of GAAP and PGE's capitalization policy in June 2006, the Company concluded that the costs should be recorded as O&M. The Company states that normally these costs would relate to a new asset that did not previously exist; since PGE already has a metering system, the Company believes it needs a ruling from the Commission to allow it to classify these costs as capital. Without Commission approval of this application, these costs would be expensed rather than capitalized.

Should the Commission approve this application for an accounting order, PGE proposes to amortize these costs over a five-year period. The Company claims these costs most closely relate to software applications being developed to achieve operational savings. Because software is amortized over five years, PGE believes the capitalized project management costs should have a similar amortization period.

The Company reports that it would not be required to reopen the books in order to reclassify such expenses to capital costs should the Commission decide to approve this application. Since the Commission has yet to rule on PGE's AMI proposal, the Company submits that should the Commission not rule in favor of PGE's proposal, all capital costs attributable to the AMI project to date would be handled in the same manner as any impaired asset; the Company would write-off or write-down these costs.

PGE estimates the total incremental cost from July 1, 2007, to June 1, 2008, to be approximately \$1.9 million. These costs relate to determining and implementing business processes and efficiencies. Staff has data requested details of the expenses recorded from July 1, 2007, through December 31, 2007, of approximately \$900,000 and intends to conduct an audit of these costs to assure that such costs are truly incremental to these costs already included in base rates set in Docket UE 180. Staff recommends the Commission approve PGE's request to reclassify these costs, subject to Staff's review of final amount.

**PROPOSED COMMISSION MOTION:**

The Commission approve Portland General Electric's request to account for expenditures related to the new Advanced Metering Infrastructure project as capital costs, effective July 1, 2007, until the tariff effective date, subject to Staff's review of such costs.