Portland General Electric
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August 27, 2018

Via Electronic Filing
puc.filingcenter@state.or.us

Public Utility Commission of Oregon
Attn: Filing Center
PO Box 1088
Salem OR 97308-1088

Re: UM 1826 - Portland General Electric Company's Reply to Staff Public Meeting Memo

Filing Center,

Enclosed for filing in the above captioned docket are PGE's comments in reply to Staff's Public Meeting Memo for the Public Meeting being held August 28, 2018.

Thank you,

Karla Wenzel
Manager, Pricing and Tariffs

KW: np

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UM 1826
PGE Reply to Staff Public Meeting Memo
August 27, 2018

PGE appreciates Staff's effort to consolidate the views of the various stakeholders in the Clean Fuels Program (CFP) and provide guidance around how the program should be administrated. PGE offers the following comments in reply to Staff's Public Meeting Memo.

PGE recommends that the Commission approve Staff's Program Design Principles (Principles) and Program Selection Process (Process) for the use of revenues from utility participation in the Oregon Department of Environmental Quality's (DEQ) Clean Fuels Program with the modifications outlined below.[1] Staff proposed six principles for the use of CFP credit revenues with a goal of allowing flexibility to fund a variety of programs that increase transportation electrification in Oregon. PGE believes Staff has incorporated most stakeholder feedback in drafting the principles. While PGE supports many of Staff's proposed principles and processes, substantive changes are required for utilities to be in a position to propose programs to the Commission for 2019.

PGE's Recommendations on Staff's Proposed Principles

- **Benefits may accrue to non-residential customers**: Staff states, "Although benefits do not need to go exclusively to residential customers, they should predominantly accrue to residential customers because residential customers will be generating the credits for monetization by the utility," acknowledging that benefits may flow to non-residential customers as a class. We agree with this finding and believe Staff intended to reflect this in Principle No. 2.

  <u>Recommendation</u>: Principle No. 2, Provide majority of benefits to residential customers, second bullet should read:

  > "While net benefits may flow to *non-residential* electric customers as a class, programs that provide a more direct benefit to residential electric vehicle owners may be considered as well."

- **Ratepayer backstop**: Staff's proposed principles aim to eliminate ratepayer exposure to any unforeseeable costs or risks associated with administering the CFP.[2] PGE principally agrees with Staff that programs should be run effectively while limiting the risk that the cost of running the approved programs will not exceed the revenues from the sale of CFP credits. PGE supports this principle. However, if PGE prudently manages programs approved by the Commission and sells CFP credits consistent with the guidelines approved by the Commission, then it is customers that must bear the risk that revenues from the sale of CFP are insufficient to pay for the cost of

[1] The credits being discussed are limited to those credits generated by the by residential charging of PGE's customers (excluding non-residential charging: public charging, fleet, workplace, etc.).
[2] Staff's Principle #4 states that "Program design will preclude the use of ratepayer funds." And that "Ratepayers will not be responsible for a shortfall in funding."

Commission approved programs. This is consistent with the regulatory framework and the fact that the Commission ordered PGE and PacifiCorp to register for CFP participation. In Order No. 17-250, the Commission found that utility participation in the CFP as Credit Generators is in the public interest. As such, it is inappropriate for utility shareholders to bear the risk of all of the uncertainties of this new program (e.g. marketplace dynamics and health, unforeseeable program costs, etc.). PGE should be able to recover funds for program deficits if PGE makes good-faith efforts to administer the program that meets the State's goals, incurs reasonable expenses in administering that program, and takes reasonable steps to prevent and limit exposure to ratepayers.

PGE is confident that flexible design elements, program safeguards, and off-ramps that protect both the utility and customers by limiting risk of funding shortfalls can be included in program design. As the design elements are considered, PGE will balance customer experience and clear messaging with the need to minimize risk of ratepayer exposure due to unforeseen market or program changes.

Recommendation: There should be no absolute prohibition on ratepayers bearing CFP costs as PGE is mandated to participate in this program by the Commission

- **Use of non-monetized credits**: Staff's report includes conflicting messaging regarding whether program costs may be incurred and approved based on forecasted but not yet actual revenue from the sale of CFP credits. In Principle No. 4, Staff states, "Programs should be designed to utilize…CFP credit revenues reasonably expected to be available during the program year(s),"[3] which suggests that non-monetized credits could be budgeted for if they were reasonably expected to be available in the program year. However, Staff also states, "To protect ratepayers, the Principles have been designed so that programs are funded through already-monetized CFP credits only."[4] It is unclear whether Staff intends to allow the use of non-monetized credits when budgeting for future program years.

  Recommendation: PGE recommends that programs may be approved to use expected but not yet actual revenues from the sale of CFP credits for several reasons:

  - Requiring credits to be monetized before program proposals are filed at predictable times in the year would likely result in an adverse effect on the CFP market. This directly contradicts Credit Monetization Principle #5, established in Order No. 17-512, "… electric companies are encouraged to support a healthy market."[5] Credit buyers could use the fact that utilities have a deadline to sell credits which could drive prices lower than they would otherwise be. PGE anticipates this would reduce the overall budget available for potential transportation electrification programs, which would negatively impact the ability to achieve Staff's recommended Principle #1, "Increase Transportation Electrification in Oregon."
  - Limiting program proposals to only budgeting for monetized credits will limit the ability to be fast and effective in program implementation. To date, PGE has not monetized any

[3] August 28, 2018 Staff Report p.5.
[4] August 28, 2018 Staff Report p.6.
[5] Order No. 17-512. p.9.

CFP credits. Negotiating the sale of and selling credits prior to Staff's proposed date of October 26, 2018 is unlikely. Given this will be PGE's first transaction, it is unknown how long negotiations and contracting will take or the amount of revenues that will result. This means PGE could be at risk of not proposing programs for the 2019 program year and not able to begin spending funds until 2020. Further, PGE would also need to wait for this transaction to be complete to begin program design, as designing a program around a \$5M budget if the actual transaction only yields \$1M would be ill-advised. It would be unwise to ignore information that known about the market: PGE will receive credits in 2019 and 2020. If it is known that the prior year's credits will be received in Q1 and PGE will not be able to plan to spend those funds until the following program year—in other words, this would mean the earliest credits that were generated in 2018 could be spent is 2020, and possibly later (depending on date of monetization).

- Ultimately, PGE believes this was largely addressed in the credit monetization principles that have already been adopted. Credit Monetization Principle #3 states, "An electric company's CFP credit market participation strategy should also generally align with the goals and timelines of any programs the credit revenue has been designated to support," and elaborates that "an electric company's credit monetization strategy should support the goals and timeline of additional transportation electrification programs."[6] PGE should plan for monetization of credits and program designs simultaneously and not independently. Selling credits without a plan for program revenues would not align with this principle.

Recommendation: Principle No. 4, Programs are Independent from ratepayer support, should be replaced with the following:

- #4 - Programs are designed to limit, to the extent practicable, exposure to ratepayers
    - Programs should be primarily designed and administered using funds generated by the CFP, however, Utilities may reasonably use its existing human resources when practicable and reasonable (e.g. regulatory affairs staff to support regulatory filings).
    - Programs should be designed to use CFP credit revenues from the CFP credit revenues reasonably expected to be available during the program year(s).
    - Programs should include flexible design elements to limit the risk of requiring ratepayer support including planned off-ramps if market values for credits do not materialize as projected.
    - Utility expenses related to programs may be included in a balancing account against which revenues from the sale of credits will be offset.
    - Program proposals will not be held to traditional cost effectiveness rules.

- **Consensus is desirable but may not be achievable**. PGE appreciate Staff's inclusion of Principle #5, "Programs are developed collaboratively and transparently." Stakeholder input is critical and will be important to make sure the right programs are pursued. Though consensus is desirable, Transportation Electrification does impact a very wide stakeholder group with varying interests; realizing consensus among such a large stakeholder group could be impossible or only achievable

[6] Order No. 17-512. p.8.

with major concessions that reduce program effectiveness. Moreover, working to consensus could involve overly extensive stakeholder processes, a significant amount of time, and delays in allocating the CFP credits toward the policy ends desired. One stakeholder could use that phrase to filibuster and unduly delay.

Recommendation: The first bullet of Principle No. 5, Programs are developed collaboratively and transparently ("...work toward the goal of consensus...") is unnecessary and should be removed.

- **Program Administration.** Staff recommends that "a reasonable standard is to maintain administrative costs at or below 10% of total program costs in a program year." Further, Staff states, "[r]easonable variation from the 10% standard may be appropriate if the responsible party demonstrates the need for additional administrative expenses."[7] PGE agrees that 10% is a reasonable standard but would like to emphasize that variation may be appropriate, particularly in the early program years.

  Program administration costs are real and will be incurred to effectively monetize credits and run effective programs. At a minimum, CFP administration will include: contracting, market tracking, trading, accounting, tax, legal, program administration, planning, reporting, program implementation, facilitating stakeholder involvement processes, and regulatory engagement. Further, Staff's proposed process moving forward after the first program year adds considerable regulatory engagement that will require company resources that must, to prevent ratepayer subsidy, be borne by the CFP.

  Additionally, PGE notes that low participation rates could also increase the percentage of administration as proportion of total program costs. For example, if PGE were to create a $1.5M rebate program, the standard for admin would be $150,000. PGE might hire or contract an administrator to manage the program—if ultimately customer participation in the program was low and PGE only spend $1M, the $150,000 administrative cost would represent 15% of the budget. Utilities should not be penalized in these instances.

  Recommendation: PGE recommends acknowledgement that variations in administration may be appropriate.

PGE's Recommendations on Staff's Proposed Process

PGE recommends the Commission modify Staff's recommended Program Selection process to make the process more streamlined and efficient. Given the uncertainty regarding the amount of revenues from the sale of credits and the goal of not exposing utility customers to the cost of these programs, it is essential to eliminate the undue administrative complexity of the process Staff proposes. Specifically,

- **Proposals by external stakeholders.** Staff recommends that "[s]takeholders may file proposals for non-utility-run programs."[8] Though input from stakeholders is welcomed, PGE believes the

[7] August 28, 2018 Staff Report p.7.
[8] August 28, 2018 Staff Report p.7.

Commission should only consider proposals from utilities. Allowing stakeholders to submit program proposals will:

- Create administrative burden for utilities and staff (and add unnecessary program cost)—as witnessed through this docket and UM 1547, Transportation Electrification is a hot topic with many active stakeholders. As funding for CFP grows, PGE believes this plan could yield dozens of proposals from various stakeholder groups. Evaluating, comparing, and reconciling differences between the proposals will take significant resources from both utilities and Staff. Further, if multiple entities are selected to run different programs, each program would have its own administrative costs. Managing all of those entities and funding disbursements would add an additional administrative layer to the portfolio.
- Increase time required to get programs approved—adequate time must be set aside to review all proposals, ask questions of the proposers, etc. Much like any procurement process, it is conceivable that short-listed proposals would need to be vetted further (e.g. requests for additional information, interviews, etc.). This would significantly delay Staff's ability to submit a report to the Commission.
- Raise several questions regarding administrative costs and the role of the utility—if ultimately 3rd parties will be proposing projects and getting approval from OPUC, what is the utilities role? A pass-through entity responsible for monetizing CFP credits? If that is the case, then does the Commission have an oversight role? If stakeholders are proposing programs, is their design time considered administrative expense? Should those costs be covered by the utility's CFP budget? When and with whom should the utilities share sensitive market trading/budget forecast data such that 3rd parties can design programs effectively?

Though input from external parties is important and valuable, the State of Oregon has directed and entrusted the utilities to participate in the market and administer these programs; the Commission has deemed this in the public interest. PGE has the expertise to monitor the market and develop and run programs. Leaving program development to a committee or policymakers will incur additional time and may not be in the best interest of customers. PGE is not aware of precedent on other utility programs where this is the process. Feedback from Staff and other stakeholders on proposals is welcomed, however, PGE should maintain the determination of what programs are ultimately run for our customers.

<u>Recommendation</u>: The Commission should only consider proposals from utilities. Third parties should be encouraged to submit recommendations to the utility and provide feedback in a public workshop, but the PGE should maintain determination of what programs are ultimately run on behalf of our customers.

- **Program Selection Process.** Staff has proposed two administrative schedules: one for program proposals for the 2019 program year and one for future program proposals.[9] PGE supports stakeholders' desire to start program implementation sooner rather than later and are supportive of Staff's first year proposal (with the understanding that we can budget programs considering non-

[9] August 28, 2018 Staff Report, p.8.

monetized credits as discussed above). Given the short time frame, however, PGE expects proposals and initial programs to be simple in scope/scale. It is also not anticipated that there will be sufficient time to meaningful engage stakeholders between now and the target proposal date of October 26, 2018.

PGE also has some concerns regarding over the proposed administrative process for Staff's future years recommendations. Despite Staff's goal of controlling and minimizing administrative costs, Staff recommends for each future program year a 6-month regulatory process to directly the following years' spending.[10] Ultimately PGE is concerned that the process Staff has proposed will be burdensome, add unnecessary administrative costs (which we agree we should aim to limit), and delay program implementation.

The process for moving forward after the first program should be streamlined and efficient. PGE believe a six-month process for proposing and approving programs is too long. The process should not extend beyond three months.

Recommendation: The following recommendations should be considered to more efficiently get programs from idea to implementation:

a. Staff-led workshops should be limited to one per year.
b. Allow multi-year programs. Multi-year program approvals (with flexible off-ramps for instances where the CFP market is weak) would limit needs to request new approvals each year.
c. Limit program design to the Utility. As discussed above, PGE believes limiting program proposals to the utility will greatly reduce the program approval process.
d. Create a clear path for program approval. PGE needs clear guidance on what criteria is acceptable for getting a program approved—ultimately, that is believed to be:
    i. A good faith proposal to spend most of the program funds in the given program year(s)
    ii. That programs have been designed to the align with each of the program principles, however, they may align with each principle to varying degrees.
    iii. Utilities demonstrate an open engagement process to review proposals with external stakeholders, solicit feedback and input, and discuss potential modifications.

- **Program Selection Timeline.** Staff's administrative schedules include target dates for proposal submissions, stakeholder workshops, Staff's report, and Commission approval in the December prior to each program year.[11] Programs take time to mobilize and launch. PGE believes that

[10] August 28, 2018 Staff Report, p.8.
[11] August 28, 2018 Staff Report, p.8.

stakeholders should target Commission approval of CFP programs in September or October to ensure sufficient time for mobilization and launch.

Further, though PGE appreciates the effort to be planful about schedules, the market is new and uncertainties exist. Staff's recommended schedules are overly prescriptive for such a new program and should include additional flexibility to account for necessary approval timing and uncertainties in the market.

Recommendation: Modify Staff's proposal/approval schedules to include additional flexibility to account for necessary approval timing and uncertainties in the market.

Conclusion

In summary, PGE generally agrees with the Principles and Process proposed by Staff for the Clean Fuels Program but believes that the Commission must make several substantive changes to streamline the process and clarify the funding and risk allocation associated with programs approved to use revenues from the sale of CFP credits. The Clean Fuels Program should be designed to mitigate the potential risk to customers while enabling PGE to design and implement programs in the near future subject to review and comment by stakeholders and approval by the Commission. PGE appreciates Staff's efforts on this program design and process.

Proposed Commission Motion:

Approve Staff's proposed Principles for the use of CFP Credit Revenues and the proposed CFP Funds Oversight Process as amended in these comments.

PGE thanks the OPUC Staff and stakeholders for the engaging public process and thanks Staff for the opportunity to provide comments on their draft principles and oversight process. PGE looks forward to continued collaboration and, ultimately, creating effective programs that support our customers and a more vibrant EV market.

Respectfully submitted on this 27th day of August, 2018

Karla Wenzel, Manager Pricing and Tariffs