BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 335

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY Request for a General Rate Revision	STAFF BRIEF ON CONTESTED ISSUES

I. Introduction.

The parties to this docket have entered into stipulations to resolve most of the issues presented by the general rate filing submitted by Portland General Electric Company (PGE). The issues not resolved by stipulation are:

- Should PGE have dollar-for-dollar recovery of all costs of major storm damage?
- Should PGE be allowed to modify its decoupling mechanism to include sales variations associated with weather?
- Should PGE be allowed to change how it calculates normal weather for its load forecast?
- Should PGE be allowed to modify its Renewable Adjustment Clause to include costs related to certain battery storage projects?

Staff stipulated to PGE's request to increase the amount collected each year in base rates for Level III storm[1] costs (from \$2.6 million to \$3.8 million) to reflect an updated rolling average of the costs incurred over the last ten years. However, Staff opposes PGE's request for dollar-for-dollar recovery of Level III storm costs through a retroactive ratemaking mechanism because Staff believes some risk of weather-related damage should remain with the Company.

Staff also opposes PGE's request to expand its decoupling mechanism to include sales variances related to weather and its proposal to use a trended weather method to calculate normal weather for purposes of its rate case load forecast. Expanding the decoupling mechanism to

[1] Level III storms are major storms that meet specific criteria. (PGE's Opening Brief, pp.2-3.)

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

address weather-related risk serves no policy purpose and provides no offsetting benefit to ratepayers. Regarding the request to use a trended weather to calculate normal weather, there is no industry support for using this method for load forecasting for purposes of setting rates. Oregon utilities currently use historic averages. If a15-year historical rolling average is used to calculate normal weather, the load forecast filed by PGE increases by 49.1 thousand megawatts.

Finally, Staff recommends that the Commission authorize PGE to modify its RAC to allow recovery of costs of renewable energy resources and "costs related to associated storage."

A. The Commission should deny PGE's proposal for dollar-for-dollar recovery of Level III storm costs through a retroactive rate making mechanism.

PGE's Major Storm Accrual Account was established in 2010.[2] PGE collects an amount each year to include in the accrual account. The amounts remain in the account until they are spent to address Level III storm damage. Accordingly, the account can build up to several million dollars. The account cannot become negative. Meaning, if PGE's spending in a year exceeds the amount in the accrual account, PGE must pay for the costs from ratepayer or other revenues.

PGE asks to change the accrual account to a mechanism that allows PGE to carry forward negative balances and obtain dollar-for-dollar recovery of all Level III storm costs through retroactive ratemaking. Staff opposes this request. The primary reason Staff opposes the request for dollar-for-dollar recovery is that it shifts weather risk to customers. No other utility has a mechanism for dollar-for-dollar recovery of costs to address weather-related damage. Instead, utilities generally bear the risk of weather-related storm costs unless the costs are extraordinary. It is not appropriate to shift this risk from the utility to customers.

The amount collected in rates is based on a ten-year rolling average. To the extent amounts collected in rates exceed actual costs in a particular year, the increased costs will be taken into account in the 10-year rolling average and the amount collected each year will

---

[2] *In the Matter of Portland General Electric Request for General Rate* Revision (UE 115), Order No. 10-478.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

increase if the utility files a rate case. This method of storm cost recovery is appropriately responsive and should not be modified.

No forecast of expenses or revenues for ratemaking is perfect. Utilities may under recover for some expenses and over recover for others or receive more or less revenues than forecasted. Generally, utilities bear the risk for these variations and are allowed to keep the excess when expenses are less than revenues and must absorb the shortfall when expenses exceed revenues. There are exceptions, such as for the recovery of NVPC. The Commission has allowed all three electric utilities to implement power cost mechanisms that share the risk of NVPC between ratepayers and shareholders. But, even with these power cost mechanisms, utilities are allowed to keep or must absorb variations in power costs unless the variance exceeds a certain amount (deadband).

Notably, PGEs request to shift weather risk to the customers with a balancing account that can become negative (meaning expenses are deferred for later recovery) does not have the protections that a typical deferral would have. Under PGE's proposal, PGE would be allowed to recover from ratepayers every dollar of storm costs that exceed the amounts included in the accrual account even if PGE's earnings exceed its authorized ROE. Such a mechanism is an inappropriate shift of risk to customers and should not be allowed.

PGE is not without a remedy if major storm costs are beyond what PGE should *reasonably* bear in between rate cases. A utility can seek to defer and subsequently amortize extraordinary Level III storm costs. This remedy may **not** help PGE with respect to Level III storm costs PGE incurred in 2017 because the costs are not sufficient to justify deferred accounting under the Commission's previously-announced criteria.[3] However, this remedy would be available if PGE's Level III storm costs were truly extraordinary.

---

[3] Whether to approve PGE's request to defer 2017 Level III storm costs is not at issue in this docket. The deferral request is pending in Docket No. UM 1817.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

The Commission explained how it considers an application to defer in a 2005 order in an investigation into deferred accounting.[4] The Commission explained that its consideration of an application to defer under ORS 757.259(2)(e)[5] has two stages.[6] The first stage entails an exercise of Commission discretion and the second entails an examination of whether the application satisfies all statutory requirements. With respect to the first inquiry, the Commission stated:

> In exercising [discretion under ORS 757.259(2)(e)], we consider two interrelated factors: the type of event that caused the deferral; and the magnitude of the event's effect. These two considerations interact with each other so that neither is dispositive without the other. With regard to the type of event causing the deferral, we dr[a]w a distinction between risks that can be predicted to occur as part of the normal course of events, classified as stochastic risks, and risks that are not susceptible to prediction and quantification, classified as scenario risks. We concluded that 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.[7]

That possibility that PGE may experience a Level III storm is a stochastic risk. PGE's revenue requirement includes amounts to pay for Level III storm damage. In this circumstance, the financial harm to PGE must be "substantial" before the Commission will exercise its discretion to allow deferred accounting.[8] The Commission has not defined what substantial impact means, but has concluded net variable power costs (NVPC) exceeding an amount equal to

---

[4] *In the Matter of Public Utility Commission of Oregon Staff Request to open an investigation related to deferred accounting* (UM 1147), Order No. 05-1070.

[5] ORS 757.259(2)(e) provides that the Commission may authorize deferral of identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and the benefits received by ratepayers.

[6] *In the Matter of Public Utility Commission of Oregon Investigation Related to Deferred Accounting* (UM 1147), Order No. 05-1070, p. 3.

[7] *In the Matter of the Public Utility of Oregon Investigation Related to Deferred Accounting* (UM 1147), Order No. 05-1070, *citing* Order No. 04-108.

[8] See Order No. 05-0170, p. 7 ("If the event was modeled or foreseen without extenuating circumstances, the magnitude of harm must be substantial to warrant the Commission's exercise of discretion in opening a deferred account.").

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

250 basis points of the utility's authorized ROE is substantial, but that an amount equal to 95 basis points of authorized ROE is not.[9]

The Commission has not specified whether the amount needed to satisfy the "substantial impact" criteria can change depending on the nature of the underlying event. For example, it is not clear whether the Commission will conclude that the substantial financial impact from a Level III storm must be as much as has previously been required for deferral of excess NVPC (250 bp of authorized ROE), or whether a smaller impact is sufficient when the costs at issue are on a smaller scale.

PGE has filed an application to defer $11.4 million of expense for Level III storm damage incurred in 2017. This amount is roughly equal to 47 bps of PGE's authorized ROE. This amount is less than 20 percent of what the Commission has previously concluded a utility can reasonably be expected to absorb between rate cases.[10] The Commission will decide in Docket No. UM 1817 whether this represents a substantial financial impact that warrants deferral.

B. The Commission should reject PGE's proposal to modify its decoupling mechanism.

In this docket, PGE seeks to broaden its partial decoupling mechanism to encompass variations in sales revenue associated with weather. Staff opposes PGE's request because it would shift risk to PGE's customers with no offsetting benefit, to customers or otherwise. Generally the Commission has required such a benefit before authorizing a decoupling mechanism.[11]

---

[9] See Order Nos. 01-683, 01-307, 01-231(approving deferral of 2001 excess net variable power costs for PGE, PacifiCorp and PGE; *In the Matter of Portland General Electric Company Application for an Order Approving he Deferral of Hydro Replacement Power Costs*, Order No. 04-108, p. 9 (denying PGE's request to defer hydro replacement power costs).

[10] Staff/700, Moore/6.

[11] *In the Matter of Northwest Natural Gas Company* (UG 143), Order No. 02-634 (adopting stipulation with decoupling mechanism and other benefits such as collection of public purpose charge and spending on conservation); *In re Cascade Natural Gas Corp.* (UG 167), Order No. 06-191 (same); *In the Matter of Avista Corporation, dba Avista Utilities Request for a General*

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

Decoupling mechanisms remove or reduce the relationship between sales volume and revenue. Without decoupling, a utility has a direct incentive to increase sales because it increases profit. The incentive to increase sales is in direct conflict with least cost planning, which often selects energy efficiency as a cost effective solution to meeting energy needs.[12]

Utilities support decoupling mechanisms because the mechanisms function in the opposite direction when sales decrease. When sales are lower than expected, utilities are able to collect more per unit sold to make up the lost revenue. The trade-off is acceptable to utilities because it represents a reduction to the utility's risk profile.[13]

"Full" decoupling mechanisms adjust revenues for all deviations from forecasted revenue, regardless of the factor causing the deviation. A "partial" decoupling mechanism adjusts for usage variation caused by specific factors such as energy efficiency. Partial decoupling mechanisms are used to target specific causes of use variation, such as energy efficiency.[14]

PGE's current mechanism is a fixed cost-recovery, true-up mechanism consisting of a Sales Normalization Adjustment (SNA) balancing account applied to residential (Schedule 7) and small non-residential (Schedules 32 and 532) customers and Lost Revenue Recovery Adjustment (LRRA) applied to large non-residential customers with loads less than 1 average megawatt (MWa). The SNA compares weather-adjusted (meaning normalized) distribution, transmission, and fixed generation revenues that are collected on a volumetric basis with those that would be collected with a fixed per-customer charge. The difference is accumulated in a balancing account and refunded or collected over a future period.[15]

Rate Revision and Application for Authorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism (UG 288), Order No. 16-076 (same).

[12] Staff/800, Kaufman/12.

[13] Staff/800, Kaufman/12.

[14] Staff/800, Kaufman/13.

[15] Staff/1100, Kaufman/2.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

The LRRA is a limited revenue recovery mechanism tied to reduced kWh sales resulting from incremental EE savings generated through ETO programs directed to nonresidential customers other than those on Schedule 32 whose load does not exceed one average megawatt.[16] Any rate increase resulting from either the SNA or LRRA is limited to two percent annually.[17]

The Commission authorized the current mechanism in 2009, noting PGE has the ability to influence customer usage and concluding that a "properly constructed decoupling mechanism would promote behavior by the Company that would be publicly beneficial."[18] The Commission imposed several conditions with the authorization, including a hard cap on the revenue that could be collected from customers as a result of the mechanism and a 10 bp reduction in PGE's authorized ROE to capture the decrease in risk associated with the mechanism.

In this docket, PGE seeks to:

1. Discontinue the LRRA and in its place apply the SNA;
2. Remove the weather adjustment from the SNA to allow the full difference in use per customer to be refunded to customers or charged to customers; and
3. Retain the two percent annual rate increase limitation, but allow PGE to carry forward any amounts over two percent and collect from ratepayers in subsequent years.

Staff opposes PGE's requests because they would shift of risk to PGE's customers with no offsetting benefit. As noted above, the Commission has typically required such a benefit or furtherance of a Commission policy, before authorizing a decoupling mechanism. For example, in 2002, the Commission authorized Northwest Natural Gas Company (NW Natural) to implement a partial decoupling mechanism after finding several offsetting benefits such as NW Natural's agreement to be subject to service quality measures.[19] In contrast, the Commission rejected PGE's proposal for a decoupling mechanism that same year after finding no offsetting

---

[16] Staff/1100, Kaufman/2.

[17] Staff/1100, Kaufman/2.

[18] *In the Matter of Portland General Electric Company* (UE 197), Order No. 09-020.

[19] *In re Northwest Natural Gas Company* (UG 143), Order No. 02-634.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

benefit.[20] In the 2002 docket addressing PGE's proposal, the Commission explained that it will "view any decoupling proposal cautiously[]" and that "[b]efore adopting any such mechanism, the Commission must ensure that the proposal benefits the utility, its customers, and the public generally."[21]

In 2006, the Commission approved Cascade Natural Gas Company's Conservation Alliance Plan (CAP).[22] CAP includes a mechanism for usage changes related to weather and efficiency. However, CAP also requires Cascade to collect public purpose funds and provide them to the Energy Trust of Oregon (ETO) and community service agencies for general and low-income demand-side management programs in Cascade's Oregon service territories and Cascade's agreement to Service Quality Measures, tracking of consumer complaints and penalties for performance below specified ratios.[23] Similarly in 2016, the Commission authorized a stipulation in Avista Corporation's 2015 general rate case that included implementation of a decoupling mechanism. However, the stipulation also required Avista to file new natural gas energy efficiency tariff to collect costs for administering and delivering energy efficiency programs to the ETO and Avista's agreement to transfer revenues from the tariff to the ETO to administer a conservation acquisition program.[24]

PGE asserts that its decoupling proposal benefits customers because eliminating weather normalization in the SNA will reduce customer weather risk.[25] In support of this assertion, PGE references a 2013 report on PGE's decoupling stating that full decoupling would reduce customer rate volatility. Staff provided analysis that demonstrated there would be almost no

---

[20] *In re Portland General Electric Company* (UE 126), Order No, 02-633, p. 5.

[21] *Id.*

[22] *In re Cascade Natural Gas Corp.* (UG 167), Order No. 06-191.

[23] *Id.*

[24] *In the Matter of Avista Corporation, dba Avista Utilities Request for a General Rate Revision and Application for Authorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism* (UG 288), Order No. 16-076.

[25] PGE/1300, Macfarlane/Goodspeed/31.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

reduction in bill volatility, and that the very small reduction in volatility is not statistically significant.[26]

Furthermore, PGE's proposed modification to the LRRA for large customers would reduce the customers' ability to mitigate economic risk by reducing electric use. Under PGE's proposal, reduced electric use caused by poor business environments would result in increased electric prices.[27] This is because the customers would experience additional charges if usage decreases. While Staff supports the LRRA for EE-related load reductions, a sales normalizing adjustment is not appropriate for any load reduction experienced by large customers.

Likewise, there is no link between PGE's actions and weather-related usage to justify expanding the decoupling mechanism as a means to incent PGE to promote conservation. PGE cannot control the weather or customer's weather-related electricity usage. Accordingly, expanding PGE's decoupling mechanism to include weather serves no policy purpose.

PGE's final proposed change to its decoupling mechanism is to eliminate the two percent cap on rate changes associated with decoupling. The Commission imposed the rate change mitigation cap at the time it authorized PGE's decoupling mechanism "to limit and define[]" the risk to customers from the mechanism.[28] PGE has not identified any rationale to support removing this limitation.[29] In absence of a compelling reason to remove the cap imposed by the Commission it should remain in place.

///

///

///

///

---

[26] Staff/1100, Kaufman/6.

[27] Staff/800, Kaufman/15.

[28] *In the Matter of Portland General Electric Company Request for a General Rate Revision* (UE 197), Order No. 09-176, p. 5 (*Order on Reconsideration*).

[29] Staff/800, Kaufman/15.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

C. The Commission should require PGE to use a 15-year historical average to calculate normal weather for purposes of forecasting load.

PGE has historically used a 15-year rolling average to calculate normal weather for purposes of forecasting its load. PGE proposes to use a historic trend (beginning 1975) instead. PGE asserts that a trended weather approach will "proactively address the inherent bias created by long-term warming in PGE's service area."[30] Using a historic trend, PGE forecasts fewer heating-degree days and more cooling-degree days relative to the 15-year average weather. The use of a trended weather approach results in a load forecast 49.1 thousand megawatts lower than use of a 15-year historic rolling average.

Staff opposes PGE's proposal to use a historic trend method rather than a 15-year rolling average to calculate normal weather. First, the trended method is not accepted in the industry as a means to forecast utility load for ratemaking. Neither Staff nor PGE were able to identify a utility anywhere in the U.S. that currently utilizes this approach for ratemaking.[31] In contrast, all of the utilities operating Oregon use a historic rolling average methodology for forecasting load in rate cases. In fact, PGE's method uses the shortest period of all six utilities, which means that it should be adept at forecasting any upward trend in the weather.

PGE notes that it used the trended weather approach in its 2016 Integrated Resource Plan in Docket No. LC 66 and argues that there is "inherent value in having consistency across forecast time horizons."[32] To the extent this is true, the value in consistency does not outweigh the value of using a forecast methodology more appropriate for short-term forecasting. The IRP forecast and rate case load forecast have different goals and the methodologies should reflect this. [33]

---

[30] PGE/2300, Riter-Lucas/6.

[31] Staff/1200, Gibbens/3, PGE/100, Riter-Lucas/10.

[32] PGE/2300, Riter-Lucas.

[33] Staff/1200, Gibbens/4.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

No forecasting methodology is perfect, but Staff does not believe a trended weather approach will result in a "50/50" load forecast.[34] A 50/50 forecast is one that does not have bias and will be equally likely to forecast too high as too low. Staff believes the trended weather forecast is biased toward warmer temperatures, meaning the forecast will tend to result in an under forecasting of load more than an over forecasting of load.

The rate case forecast impacts the calculation of the rates necessary to recover the revenue requirement determined by the Commission. The smaller the load, the higher the rates needed to recover the revenue requirement. Whether PGE uses the 15-year rolling average or trended weather method to forecast load has minimal impact in this case because the methods produce similar forecasts.[35] Nonetheless, Staff opposes uses of the trended weather at this time.

There is little acceptance of this methodology in the industry given the uncertainty regarding the magnitude and sign of a trend and the minimal impact that a trend has in the short term of a rate case forecast. Use of a 15-year historical average provides an appropriate balance between relying on normalized historical information and responsiveness to recent weather patterns. Using 15-year average weather as opposed to PGE's proposed trended weather approach would increase the total energy deliveries forecast by 49.1 thousand MWh.[36]

D. The Commission should allow PGE to modify its Renewable Adjustment Clause to mirror language in SB 1547.

SB 838 (2007) established a Renewable Portfolio Standard requiring that utilities meet specified percentages of their Oregon load with electricity generated by eligible renewable resources by specified dates. Section 13 of the Act, codified as ORS 469A.120, provided that "all prudently incurred costs associated with compliance with a renewable portfolio standard are recoverable in the rates of an electric utility[,]" and directed the Commission to establish an

---

[34] Staff/1000, Gibbens/8-9.

[35] Staff/1200, Gibbens/2.

[36] Staff/1000, Gibbens/10.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

automatic adjustment clause or another method for timely recovery of costs. The Commission adopted Renewable Adjustment Clauses for PacifiCorp and PGE in 2007.[37]

In 2016, the legislature adopted SB 1547, which included revisions to ORS 469A.120. The pertinent revisions are as follows:

> (2)**(a)** The Public Utility Commission shall establish an automatic adjustment clause as defined in ORS 757.210 or another method that allows timely recovery of costs prudently incurred by an electric company to construct or otherwise acquire facilities that generate electricity from renewable energy sources [*and for*], **costs related to** associated electricity transmission **and costs related to associated energy storage.**

PGE seeks to modify is RAC (Schedule 122) to encompass costs related to energy storage. Staff supports revising Schedule 122 so that it mirrors the statute. However, Staff notes that what constitutes "associated energy storage" remains at issue.

Staff does not think the question of what is "associated energy storage" is presented in this docket. Instead, the question should be addressed in connection with any PGE RAC filing that seeks to include costs of energy storage. At that time, PGE, Staff, and stakeholders can address whether the costs at issue are recoverable under the RAC as "costs related to associated energy storage."

II. Conclusion.

Staff recommends that the Commission deny PGE's request (1) for a retroactive ratemaking mechanism to recover Level III storm costs, (2) to modify its decoupling mechanism, and (3) to use a trended weather method rather than historical 15-year rolling average to calculate normal weather for purposes if its load forecast. Staff recommends that the

/ / /

/ / /

/ / /

/ / /

---

[37] *In the Matter of Public Utility Commission of Oregon Investigation of Automatic Adjustment Clause Pursuant to Senate Bill 838* (UM 1330), Order No. 07-572.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

Commission allow PGE to modify its RAC so that the language in Schedule 122 mirrors the new language in ORS 469A.120(2)(a) included in SB 1547 (2016).

DATED this 19 day of October, 2018.

Respectfully submitted,

ELLEN F. ROSENBLUM
Attorney General

for
Stephanie Andrus, OSB # 925123
Assistant Attorney General
Of Attorneys for Staff of the Public Utility Commission of Oregon

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784