ITEM NO. RA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 21, 2023

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** ______**April 1, 2023**______

DATE: March 14, 2023

TO: Public Utility Commission

FROM: Bret Stevens

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. ADV 1474/Advice No. 22-45)
PGE COVID-19 Deferral Amortization

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric's (PGE or Company) filing of Advice No. 22-45, associated with Schedule 152 – Major Event Cost Recovery, effective for service on and after April 1, 2023, on less than statutory notice.

DISCUSSION:

Issue

Whether the Commission should approve PGE's proposed revision to its Schedule 152 to amortize the costs associated with the COVID-19 pandemic.

Applicable Law

Under ORS 757.205(1), all tariff changes must be filed with the Commission. The Commission may approve tariff changes if they are deemed to be fair, just, and reasonable. ORS 757.210. Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-022-0025. OAR 860-022-0025(2) specifically requires that each energy utility changing existing tariffs or schedules must include in its filing a statement plainly indicating the increase, decrease, or other change made with the filing; the number of customers affected by the proposed change and the resulting change in annual revenue; and the reasons or grounds relied upon in support of the proposed change.

Filings that propose any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the change. ORS 757.220; OAR 860-022-0015. Tariff filings to be effective on less than 30 days following notice of the change may be authorized with a waiver of less than statutory notice (LSN) pursuant to ORS 757.220 and OAR 860-022-0020.

OAR 860-022-0030(1) further requires that for tariff or schedule filings proposing increased rates, the utility must for each separate schedule, identify the total number of customers affected, the total annual revenue derived under the existing schedule, and the amount of estimated revenue which will be derived from applying the proposed schedule, the average monthly use and resulting bills under both the existing rates and the proposed rates that will fairly represent the application of the proposed tariff or schedules, and the reasons or grounds relied upon in support of the proposed increase.

Amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review. A review of the utility's earnings is required, unless subject to an automatic adjustment clause. With some exceptions, a company's amortization of amounts deferred cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

<u>Analysis</u>

Background
On March 8, 2020, Oregon Governor Kate Brown declared a statewide state of emergency due to the public health threat posed by the novel infectious coronavirus, COVID-19.[1] The state of emergency ended April 1, 2022, although some pandemic related protections remain in effect beyond that date.

On March 23, 2020, PGE filed UM 2064, requesting the Commission authorize the Company to defer for later ratemaking treatment costs from the COVID-19 public health emergency. This was approved by Order No. 20-376 and reauthorized in Order No. 22091 and in Order No. 22-157. PGE stopped recording new expenses under this deferral in September of 2022.

Staff, all six Commission jurisdictional energy utilities, and interested parties participated in a series of workshops and meetings, leading to the creation of an Energy Term Sheet (or the "Stipulated Agreement") representing agreement in principle by Avista (AVA), Cascade Natural Gas (Cascade or CNG), Idaho Power Company (IPC), NW Natural

[1] EO 20-03 (March 8, 2020).

Gas (NWN), PacifiCorp (PAC), PGE, Staff, Oregon Citizens' Utility Board (CUB), Community Action Partnership of Oregon (CAPO), Multnomah County Office of Sustainability (MCo), Northwest Energy Coalition (NWEC), and Verde (collectively, the Parties).[2]

On September 24, 2020, in Docket No. UM 2114 (investigation into the effects of COVID-19), the Commission authorized the Parties to execute a stipulation incorporating the Energy Term Sheet. Consistent with the Energy Term Sheet, the Parties entered into a Stipulated Agreement adopted by the Commission in Order No. 20-401.

PGE established Schedule 307 Residential Bill Assistance Program as a result of the decisions made in UM 2114 and the Commission's investigation into the effects of the COVID-19 pandemic on utility customers. Schedule 307 became effective February 15, 2021, in response to Commission Order No. 20-401, providing $17.5 million of program funds. Programs associated with that funding were closed to new entrants on August 13, 2021. PGE subsequently requested an additional $6 million to assist residential customers through a revision to Schedule 307 that was approved by the Commission and became effective on September 8, 2021.

On December 16, 2022, PGE filed Advice No. 22-45, requesting the recovery of the costs deferred in UM 2064. Originally, the company proposed to amortize this amount over a four-year period and spread the costs on total revenue. Staff, along with the Alliance of Western Energy Consumers, the Citizens' Utility Board, and the Small Business Utility Advocates (hereby referred to as "Stakeholders") met with PGE on multiple occasions to discuss prudence, rate spread, and the amortization window. These meetings occurred on January 23, 2023, February 6, 2023, February 15, 2023, and February 28, 2023.

These discussions resulted in the Company filing one supplemental filing, then another, both accompanied by an LSN.

Summary of Stipulated Agreement
The following terms summarize the Parties 'agreement on the deferral applications, as approved by the Commission in Order No. 20-401:

- The Parties agree that the Utilities' applications for deferred accounting of COVID-19-related costs and benefits should be submitted with an approval recommendation to the Commission and recovery of those amounts deferred will

[2] While the Small Business Utility Advocates (SBUA) participated in the negotiations it was not party to the Stipulated Agreement.

be subject to a future Commission prudence review. The prudence review proceeding will ensure deferrals are either directly related to this Term Sheet or are related to other increased costs due to COVID-19. These COVID-19 related deferrals shall consist of the following:[3]

- Direct costs for reasonable measures taken by the Utility in response to the COVID-19 pandemic, including, but not limited to: incremental personal protective equipment, cleaning supplies and services, contact tracing, medical testing, financing costs to secure liquidity including carrying costs associated with time payment agreements, information technology updates and administration needed to enact the stipulation, and equipment needed for remote work options.

- Direct costs are net of credits, payments, direct cost savings, or other benefits received by the Utility from a federal, state, or local government that are directly related to a COVID-19 direct cost, including federal, state, or local tax credits or benefits. Due to the unprecedented nature of the COVID-19 pandemic, not all costs may be known at this time. Utilities are not limited to deferring costs that are expressly enumerated above; provided, however, that all such costs are subject to a future Commission prudence review proceeding.

- The amount of late payment fees not assessed to customers under the Stipulated Agreement. The amount of deferred late fees recorded in any year, including any late payment fees that were assessed prior to any suspension in that year, if applicable, shall not exceed the amount of late payment fees included in the Commission's final order from the utility's last general rate case.

- For bad debt expense, the amount that is currently being collected from customers for bad debt, as determined in its last general rate proceeding, would be the baseline. Any amount of bad debt expense incurred above this baseline, including arrearage amounts waived and associated program costs, in 2020, 2021, and 2022 would be deferred for later recovery.

- For reconnections and field visits that occur between April 1, 2021, and October 1, 2022, the amount of forgone reconnection charges and field visits that do not result in disconnection and field connection charges not

[3] Order No. 20-401.

assessed to customers.

- The amount of forgone reconnection charges incurred through November 15, 2020, related to customers that may have been disconnected prior to the March 13, 2020, suspension of disconnects. Forgone reconnection fees shall not exceed the amount equal to one reconnection fee per customer who was reconnected to service without charge. The reconnection fee shall be calculated using the applicable reconnection fee available in the utility's tariff for reconnection during regular working hours for the reconnected customer.

- All costs to fund a COVID-19 arrearage management program.

- The Parties agree that the deferral balance will be reviewed for prudence on an annual basis. The specific timing of the annual prudency review will be established in each utility's docket requesting deferred accounting. The timing of the amortization and the amortization period will be determined as part of the prudency review process

- The deferral balance, whether being accrued (pre-prudence), found to be prudent in an annual prudence review (pre-amortization), or being amortized, shall accrue the same interest rate, equal to the blended Treasury rate plus 100 basis points. To the extent the amortization of the deferral is more than two years for a utility that utility may request that the Commission authorize a larger basis point spread. For regulatory and ratemaking purposes, the financing of the deferral will not be included in the capital structure of the utility.

- Each utility shall provide the Commission with reports that itemize the utility costs, savings, and benefits resulting from COVID-19. The first report will be for the period between March 1, 2020, and September 30, 2020, and shall be filed by November 1, 2020. Thereafter, reports will be due 30 days after the close of each quarter and shall include information from the previous quarter. Each utility shall file a Report for every quarter until the quarter ending December 31, 2023, unless waived by the Commission. As of the date this memo was written, the Company has filed all required reports.

Prudence Review
Staff reviewed the reasonableness and prudence of PGE's deferred costs as submitted in RE 186 and Advice No. 22-45. The general cost breakdown of deferred costs can be seen below:

Table 1: Balancing Account Breakdown

Category	Amount	Share of Total
Bad Debt/Bill Assistance	$26,838,000.00	88.2%
Accrual/Deferral	$4,560,217.59	15%
Waived Late Fee	$6,515,161.99	21.4%
Earnings Test Deferral Release	($2,185,790.53)	-7.2%
COVID Cost Savings	($7,981,310.31)	-26.2%
Interest on Balance	$2,671,468.20	8.8%
Total	$30,417,746.94	100%

Most incremental costs incurred by PGE related to COVID-19 came from bill assistance programs and incremental bad debt. These include costs related to Schedule 307 and uncollectables in excess of those included in rates. From 2020 to 2023, PGE provided $23.1 million in funds related to their Bill Assistance Program and saw $27.6 million in bad debt unrelated to bill assistance. Over the same period, PGE had collected $23.9 million to cover bad debt in base rates, leaving the remainder of $26.8 million given above.

Miscellaneous incremental costs related to the COVID-19 pandemic are recorded in the Accrual/Deferral category. These costs include the purchase of personal protective equipment, cleaning supplies and services, contact tracing, information technology updates, equipment needed for remote work options, etc. Staff reviewed the line-item quarterly expenses recorded by the Company in RE 186 and found that the expenses were in alignment with the terms outlined in the Stipulated Agreement described above.

Along with increased costs, PGE also experienced the loss of revenue associated with late fees. In the spring of 2020, PGE voluntarily suspended disconnections of residential and non-residential accounts, stopped sending late and final notices, and stopped assessing late fees to assist customers impacted by COVID-19.[4] These costs

[4] Order No. 20-401, Appendix A, Pg 2. The Company began disconnections and began assessing late fees of small commercial customers Schedule 32 as of January 2021.

were tracked in accordance with the Stipulated Agreement and are included in this request for amortization. In total, these deferred revenues total roughly $6.5 million.

There are two categories which decrease the deferral amount. The first is the earnings test deferral release. This amount is related to Order No. 22-129 and stems from PGE earning beyond its authorized ROE in 2020.[5] The COVID-19 cost savings category represents the cost savings associated with the COVID-19 pandemic. These savings are largely associated with a reduction in business-related travel and entertainment costs.

With respect to cost savings, PGE's original filing assumed that 50 percent of the cost savings were assigned to shareholders as some of the savings were attributable to meals and entertainment. In general rate cases, the Commission has adopted the practice of allowing 50 percent of the cost of meals and entertainment in rates in part as an incentive for the Company to minimize costs and, in part, because these costs are somewhat discretionary. When Staff questioned the Company whether all the cost savings are subject to the 50 percent disallowance, the Company reviewed its initial work and agreed that the cost savings "allocation" to shareholders should be reduced and revised it calculations and the adjustment was material. Staff appreciates PGE revisiting its original worksheet calculations.

Rate Spread and Amortization

In PGE's original filing, they proposed that the deferred costs be amortized over a four-year period to minimize the rate shock to customers. After discussions with Staff and Stakeholders, this amortization window was reduced to two years. The primary reason for this reduction was to decrease the total amount of interest accumulated during amortization. This leads to ratepayers saving roughly $1.3 million in interest while only increasing the average residential bill by an additional 0.3 percent per month. These savings are incurred despite a higher 2-year interest rate as compared to the 4-year interest rate due to the current inverted yield curve. All parties to this discussion felt that this adjustment helped to lower the overall cost paid by ratepayers while keeping the overall rate change low.

The other material adjustment made in these discussions was the rate spread of these costs. PGE had originally proposed spreading the amortization across the schedules using an equal percent of revenues. Through multiple discussions, Staff, PGE, CUB, Alliance of Western Energy Consumers (AWEC), and Small Business Utility Advocates (SBUA) support a rate spread that balances multiple stakeholders' priorities. Although

[5] Staff has that PGE earned 9.65 percent on a Type 1 adjusted basis and had an authorized ROE level of 9.5 percent.

stakeholders to this Advice filing did not agree on a single appropriate method of allocating costs based on cost causation in this matter, they were able to agree on an overall spread that balanced the interests and positions of each supporting stakeholder. The rate spread supported by the utility, Staff, and other stakeholders can be found below.

Table 2: Rate Spread

Schedule	Spread
Schedule 7	58.02%
Schedule 15	0.07%
Schedule 32	8.89%
Schedule 38	0.17%
Schedule 47	0.20%
Schedule 49	0.46%
Schedule 83	13.17%
Schedule 85-S/485-S/585-S	9.40%
Schedule 85-P/485-P/585-P	3.15%
Schedule 89-S/489-S/589-S	0.00%
Schedule 89-P/489-P/589-P/689-P	2.53%
Schedule 89-T/75/489-T/589-T	0.38%
Schedule 90	3.34%
Schedule 91/95	0.20%
Schedule 92	0.01%

A typical Schedule 7 Residential customer, consuming about 795 kWh per month, will see a monthly bill increase of $0.92, or 0.7 percent. A typical Schedule 32 Small Nonresidential customer, consuming 1,350 kWh per month, will see a monthly bill increase of $1.23, or 0.6 percent. The increase to Schedule 152 associated with this deferral is projected to end after two years in April of 2025. Staff has reviewed and agrees with the tariff figures accompanying the underlying spreadsheet revenue requirement model. Staff has also met with PGE to ask questions and confirm calculations in the accompanying work papers on January 6, 2023, and January 10, 2023.

PGE filed the latest version of rates, consistent with the discussions with interested parties on March 9, 2023. The rates are effective for service rendered on and after April 1, 2023. Because the filing was made less than 30 days from the effective date, PGE also filed a LSN (less than statutory notice) request.

Conclusion

Based on Staff's review of PGE's workpapers and discussions with the Company and stakeholders, Staff believes that the costs deferred under UM 2064 were reasonable and prudent and PGE's current proposal will produce fair and just rates. These rates were discussed with stakeholders and represent the balancing of multiple competing interests.

Portland General Electric has reviewed this memo and voiced no concerns.

PROPOSED COMMISSION MOTION:

Approve PGE's ADV 1474, Schedule 152 Major Event Cost Recovery, effective for service on or after April 1, 2023, on less than statutory notice.