

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 23, 2019

REGULAR  X  CONSENT \_\_\_\_\_ EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: April 16, 2019

TO: Public Utility Commission

FROM: Marianne Gardner <sup>MG</sup>

THROUGH: Jason Eisdorfer <sup>EPJ</sup> and John Crider <sup>JC</sup>

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. ADV 929/Advice No. 19-05) Establishes new Schedule 150, Transportation Electrification Cost Recovery Mechanism, to recover costs associated with transportation electrification pilots.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission suspend and investigate Portland General Electric's (PGE, Company) Advice No. 19-05, for a period not to exceed six months.

**DISCUSSION:**

Issue

Whether the Commission should approve PGE's request to establish new Schedule No. 150, Transportation Electrification Cost Recovery Mechanism, to recover costs associated with TE pilots, for service rendered on and after May 1, 2019.

Applicable Rule or Law

PGE submitted on February 15, 2019, Advice No. 19-05 pursuant to Oregon Revised Statutes (ORS) 757.205 and 757.210 and Oregon Administrative Rules (OARs) 860-022- 0025.

- ORS 757.205 requires public utilities file to all rates, rules, and charges with the Commission.
- ORS 757.210 establishes a hearing process to address utility filings and requires rates be fair, just and reasonable.

- OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

The following statutes and Commission orders are relevant to suspension of a schedule of rates, automatic adjustment clauses, and deferred amounts.

- ORS 757.215 provides the Commission with discretion to suspend a rate or schedule of rates, for a period of up to six months from the proposed effective date, to investigate the proposed new rate.
- ORS 757.210(1)(a) refers to the hearing process regarding a rate change that is the result of an automatic adjustment clause, once established.
- ORS 757.210(1)(b) defines “automatic adjustment clause” as,  
...a provision of a rate schedule that provides for rate increases or decreases or both, without prior hearing, reflecting increases or decreases or both in costs incurred, taxes paid to units of government or revenues earned by a utility and that is subject to review by the commission at least once every two years.
- ORS 757.259(2)(e) provides  
...the commission by order may authorize deferral of the following amount for later incorporation in rates:...(e) Identifiable utility expense 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 benefits received by ratepayers.
- Orders No. 18-423 and No. 19-053, Docket No. UM 1909, explain that the Commission does not have the legal authority to defer capital costs under Oregon law.

The following law orders provide background and considerations when regarding Transportation and Electrification programs.

- ORS 757.357:
  - Defines “Transportation Electrification”;
  - Sets forth the necessity of TE;
  - Requires electric utilities to increase TE access to customers;
  - Requires the PUC to direct electric utilities to file applications;
  - Sets forth considerations the commission shall:
    - Take into account in its evaluation of a TE program;
    - Incorporate in the determination of cost recovery; and,

- Include in program evaluation concerning the current and future adoption of electrical vehicle and electric vehicle charging infrastructure such as market conditions and potential stranded costs for customers.

### Analysis

#### Summary of Company's Application for Establishing New Schedule 150.

The Company filed Advice No. 19-05 on February 15, 2019 and then filed two supplemental filings. The first supplement corrected the special condition relating to allocation for cost recovery. The second supplement moved the rate effective date to May 1, 2019 from April 1, 2019 to accommodate Staff's request for more review time.

#### *Prices*

In its filing, PGE asserts, the accompanying tariff sheets for Schedule 150 do not increase, decrease, otherwise change existing prices, or impact revenues, as current rates under the recovery mechanism are set to \$0.

#### *Purpose*

The purpose of Schedule 150 is to establish a recovery mechanism for the costs associated with TE pilots otherwise not included in rates. PGE proposes to implement this schedule as an automatic adjustment clause (AAC) as provided for under ORS 757.210. This schedule would recover deferred O&M costs, tracked through a balancing account, along with capital investments related to TE programs.

#### *Deferral and Balancing Account*

PGE proposes to establish a balancing account, which will be instituted to accumulate differences between incremental operation and maintenance costs associated with TE programs and revenues collected through prices on this tariff. The balancing account will accrue interest at the Commission-authorized rate for deferred accounts. PGE would file to reauthorize deferrals for O&M annually. Only the incremental costs for implementation and administration of TE pilots would be deferred.

#### *Capital Costs*

The Company also proposes to periodically update prices to track in capital-related costs directly associated with TE pilots after the related plant is placed in service. The Company's filing does not contain a specific proposal as to how often, or through what review mechanism, capital costs would be "tracked" into rates through the proposed Schedule 150 AAC.

*Special Condition*

PGE proposes that costs recovered through Schedule 150 will be apportioned to each schedule using the relevant schedule's forecasted energy based on an equal percent of revenues applied on a cents per kWh basis to each applicable schedule.

Staff's Analysis

*TE Ratemaking*

ORS 757.357 provides state goals and sets standards and requirements of both the Commission and electric utilities for transportation electrification. Sections (4) and (5) set forth certain requirements for ratemaking as follows:

(4) When considering a transportation electrification program and determining cost recovery for investments and other expenditures related to a program proposed by an electric company under subsection (3) of this section, the commission shall consider whether the investments and other expenditures:

- (a) Are within the service territory of the electric company;
- (b) Are prudent as determined by the commission;
- (c) Are reasonably expected to be used and useful as determined by the commission;

(5)(a) Tariff schedules and rates allowed pursuant to subsection (3) of this section:

- (A) May allow a return of and a return on an investment made by an electric company under subsection (3) of this section; and
- (B) Shall be recovered from all customers of an electric company in a manner that is similar to the recovery of distribution system investments.

(b) A return on investment allowed under this subsection may be earned for a period of time that does not exceed the depreciation schedule of the investment approved by the commission. When an electric company's investment is fully depreciated, the commission may authorize the electric company to donate the electric vehicle charging infrastructure to the owner of the property on which the infrastructure is located.

ORS 757.357 does not require the Commission to implement a specific ratemaking treatment for expenses, revenues, and capital investment related to TE programs, other

than to state that such investments “shall be recovered from all customers of an electric company in a manner that is similar to the recovery of distribution system investments.” Staff interprets this as consistent with general ratemaking principles that the Commission follows to determine whether and how a utility’s costs are eligible for recovery in rates. These principles require a determination of prudence and used and usefulness before capital costs of an investment are put into rates. Expenses must be reasonable.

Typically, the recovery of distribution system investments has been through general rate cases. The Commission has previously approved rate recovery for some costs through automatic adjustment clauses in limited circumstances.

#### *Staff’s Concerns and Proposed Ratemaking*

The Company states that the purpose of Schedule 150 is to implement an automatic adjustment clause as provided in under ORS 757.210. Automatic adjustment clauses are a ratemaking tool, outside of a general rate case, at the Commission’s disposal to allow for the recovery of revenues, expenses, and capital costs, outside of a general rate case and without an earnings review. Staff recommends that the Commission suspend and investigate PGE’s Advice No. 19-05 for a period not to exceed six months for two reasons.

First, Staff finds value in looking at capital recovery ratemaking mechanisms and options as a whole following the Commission’s decision in Docket No. UM 1909, through Order No. 18-423 (affirmed by Order 19-053). In that case, the Commission opened a new investigation to explore the ramifications of its decision in UM 1909 and to explore options for capital recovery consistent with its legal authority and the public interest. This investigation is docketed as Docket No. UM 2004. Staff has initiated preliminary steps in the investigation by engaging in individual discussions with each utility. Staff further believes that recovery of capital costs associated with PGE’s currently approved and future TE programs should be informed by the outcome of this investigation, as discussed below. In the interim, PGE has filed two deferral applications that would track the operations and maintenance costs (O&M) related to these pilots and has proposed a tracking mechanism for capital related costs.<sup>1</sup> For these reasons, Staff finds the Company’s request to authorize this ratemaking treatment for TE program costs to be premature, in light of the larger discussion of how, and under what circumstances, capital recovery for certain costs should occur outside of a general rate case. The UM 2004 investigation is underway, and Staff is evaluating alternatives for capital recovery outside of a general rate cases. Staff notes that PGE’s requested ratemaking treatment is not required by Oregon law.

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<sup>1</sup> See Docket Nos. UM 2003 and UM 1938.

Second, automatic adjustment clauses have been approved by the Commission under limited circumstances, and sometimes with additional conditions and procedures for review of costs, cost sharing, etc. As one example, PGE's Automatic Demand Response (ADR) cost recovery mechanism was developed through a comprehensive process with Staff and stakeholders, and contains a number of conditions to ensure that costs are reviewed for reasonableness and prudence in a timely manner, with appropriate notice to Staff.<sup>2</sup> PGE has not proposed a similar process in this case, and Staff finds that even if TE program costs are recovered outside of base rates, additional discussion to work through conditions and commitments for filing, etc., are necessary before Schedule 150 should go into effect.

Staff recognizes that with the rising interest in innovative pilots and programs such as TE, community solar, energy storage, progressively more pilots and programs will be brought before the Commission for ratemaking treatment. But rather than approving ratemaking treatment on a "one off" basis, Staff finds that thoughtful consideration of capital cost recovery in general, including the discussion of parameters around the definitions, objectives, and outcomes of capital cost recovery, including for pilots, is warranted prior to approving specific cost-recovery mechanisms when not otherwise required by law.

Staff also recognizes that the costs for PGE's currently approved TE programs represent real and tangible costs to the Company, and intends to work as expeditiously as possible to make a recommendation to the Commission on how these types of programs should receive cost-recovery pursuant to the UM 2004 proceeding. However, Staff is concerned that the Company's proposed cost-recovery mechanism in this case does not, at a minimum, contain similar detail to its ADR cost-recovery mechanism.

#### *Interactions with PGE's Proposed TE Programs*

Staff is currently reviewing two new Company's proposed TE programs that are much more substantial in cost and complexity as compared to the Company's previously approved TE programs in docket UM 1811, and Staff's understanding of pilot programs in general. Also in Schedule 150, PGE is attempting to set up cost recovery for all TE projects. However, it is not clear to Staff that the newer programs or projects are pilots and should be treated the same as its earlier TE projects. Staff is also concerned that approval of this tariff prior to the completion of the Docket No. UM 2004 investigation has the potential of creating a chaotic regulatory environment. Rather, Staff believes it is to the benefit of all stakeholders to delay action and instead, in Docket No. UM 2004, set clear guidance that is in line with regulatory goals and priorities with input from the utilities and the intervening parties.

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<sup>2</sup> See OPUC Order No. 11-182.

To this end, Staff is thoughtfully analyzing and determining the objectives and characteristics for each phase of an innovative project. As an illustration, Staff has appended a recommended pipeline for innovation projects by Rocky Mountain Institute. As shown, a characteristic of a pilot is that it is small scale. If the pilot were successful, the next step would be scaling-up, and then a phased rollout. Staff contends that costs would similarly start out on a smaller scale and then increase as the project scales up. Each step should include critical learnings that are communicated to stakeholders that inform the decision path. An important component of this strategic planning is cost recovery, as it is integral to decisions to move forward or abort a project. Appropriate rate recovery requires understanding each phase and balancing the needs and risks of the utility, customers, and stakeholders properly at each phase.

### Conclusion

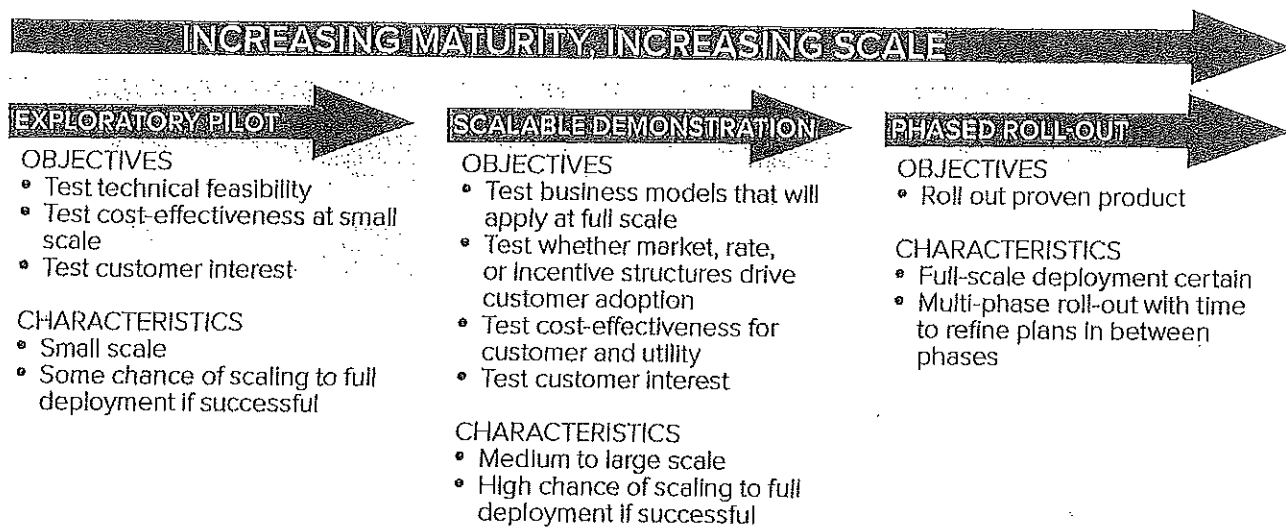
For the reasons stated above, Staff concludes that suspension of PGE's Advice No. 19-05 filing is appropriate, in order to consider appropriate ratemaking treatment for such programs on a holistic basis, rather than considering ratemaking for these programs on an individual basis. Further, even if the Commission determines that individual ratemaking is appropriate for PGE's TE programs, additional investigation is necessary in order to further develop conditions and procedures for rate recovery pursuant to PGE's proposed AAC mechanism.

Therefore, Staff's recommendation is to suspend PGE's request to implement a new rate schedule, Schedule 150, pending consideration of the policy issues implicated by this filing in docket UM 2004, and in order to further investigate what, if any, additional information, processes and procedures may be appropriate for TE program cost recovery outside of a general rate case. Staff notes that PGE has deferrals filed for non-capital costs, and therefore, those costs may be tracked and booked for future cost-recovery pending Commission approval.

### **PROPOSED COMMISSION MOTION:**

Suspend and investigate PGE's Advice No. 19-05, for a period not to exceed six months.

FIGURE 5: <sup>1</sup>  
RECOMMENDED PIPELINE FOR INNOVATION PROJECTS



<sup>1</sup>Fairbrother, Courtney, et al. *Pathways for Innovation*. Rocky Mountain Institute, <https://rmi.org/rmi-insights/reports/>. Accessed 15 Apr. 2019.