ITEM NO. RA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 8, 2020

REGULAR _X_ CONSENT ____ EFFECTIVE DATE ____ January 1, 2021 ____

DATE: August 25, 2020

TO: Public Utility Commission

FROM: Sabrinna Soldavini

THROUGH: Bryan Conway and John Crider **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. ADV 1130/Advice No. 20-14)
Updates Schedule 300 Line Extension Allowance, revising Residential Line Extension Allowance.

STAFF RECOMMENDATION:

Approve Portland General Electric's (PGE or Company) Advice No. 20-14, which updates its Schedule 300 Line Extension Allowance to revise its residential line extension allowance (LEA) policy, effective with service rendered on and after January 1, 2021, subject to the following condition:

1. No later than June 30, 2025, Staff and the Company will initiate a review of the residential LEAs and PGE's updated energy use data.

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve PGE's Advice No. 20-14, updating Schedule 300 Line Extension Allowance.

Applicable Rule or Law

ORS 757.205 requires public utilities to file schedules showing all rates, tolls, and charges for service that have been established and are in force at the time. Pursuant to ORS 757.210, the Commission may approve tariff changes if they are deemed to be fair, just, and reasonable.

Filings that make 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 changes. ORS 757.220.

OAR 860-022-0025 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.

OAR 860-021-0045(1) states that an electric company shall, with the exceptions provided under its extension rules, furnish service connections to the customer's service entrance.

Analysis

Background

On June 8, 2020, PGE filed Advice No. 20-14, requesting updates to its residential LEA outlined in Schedule 300 Line Extension Allowance. PGE's filing seeks to substantively change the Company's current residential line extension policy. Currently, all new residential dwellings have the same maximum residential LEA, $1,623. The Company's filing seeks to create two distinct categories for residential LEAs, each with their own LEA.

The first category, Residential Service All Electric (All Electric), would be available to dwellings where the primary heating source is provided by an active electric HVAC-system. The second category, Residential Service Primary Other (Other), would be available to dwellings where active primary service is provided by an HVAC system using combustion furnaces fueled by natural gas, propane, oil, and biodiesel as well as all passive HVAC-system solutions.

In PGE's initial application, it requested an All Electric LEA of $2,560 per dwelling/unit and an Other LEA of $1,590 per dwelling/unit.

On August 20, 2020, after consultation with Staff and the Oregon Citizens' Utility Board (CUB), the Company submitted a supplemental filing, lowering the amount of the Residential All Electric LEA to $2,260 per dwelling/unit and committing to an automatic review to be conducted between Staff, the Company, and interested parties with updated PGE energy use data for newly constructed residential homes no later than June 2025.

PGE's proposal will set the residential LEA to three times the annual and basic distribution charge revenues. The proposed LEAs are calculated using the average between PGE new home construction usage data and industry estimated consumption for specific end-uses in residential new construction.

The Company also notes that this proposal to restructure its residential LEAs supports Oregon's decarbonization goals by providing an incentive to electrify, and thereby decarbonizing residential load.

Line Extension Allowances
Line extension allowances are a common practice in the utility industry. Most electric utilities have a line extension policy that outlines how costs are allocated and incurred to extend service to new customers. Generally, the utility provides a certain amount of investment for the extension. Any additional investment needed is paid by the new customer. The intent is to ensure that new customers pay the incremental cost of connecting to the system without raising rates to other customers.[1]

Staff notes that it is unable to find significant guidance from recent Commission Orders or Oregon Administrative Rules related to line extension policies. As noted above, OAR 860-02100045(1) requires utilities to, with the exceptions in its rules, furnish service connections to the customer's service entrance.

For gas utilities, OAR 860-021-0050(1) provides more guidance, stating "each gas utility shall develop, with the Commission's approval, a uniform policy governing the amount of service extension that will be made free to connect a new customer. This policy should be related to the investment that can prudently be made for the probable revenue."

As mentioned above, PGE's proposal will set the residential LEA to three times the expected annual and basic distribution charge revenues.[2] PGE's proposal to split the residential LEAs into All Electric and Other categories is in part justified by the idea that a new all-electric customer is likely to have higher annual kWh usage than a new customer who uses another fuel source.

The proposed Other LEA assumes an annual usage of 9,100 kWh, and the proposed All Electric LEA assumes annual usage of 12,980 kWh. The LEA's are calculated using

[1] RAP Electric Cost Allocation for a New ERA, page 59: https://www.raponline.org/wp-content/uploads/2020/01/rap-lazar-chernick-marcus-lebel-electric-cost-allocation-new-era-2020-january.pdf.
[2] Staff notes that PGE's current residential LEA is set at four times the expected annual and basic distribution charge revenues.

PGE's new home construction usage data, as well as industry estimated consumption for specific end-uses in residential new construction from the Northwest Power Council's Regional Technical Forum (RTF) and the US Energy Information Administration's 2015 Residential Consumption Survey.

Staff's Analysis & Review
After reviewing the Company's initial application, Staff and the Company met to review its proposal and associated workpapers on June 26, 2020. After this meeting, Staff requested additional information regarding the Company's proposed LEAs, including further clarification on the incremental difference in the LEA between the All Electric and Other categories.

Staff and PGE met again on July 11, 2020, to further discuss PGE's usage data and its proposed residential LEA's. Staff's main concern in its review was that while PGE new home construction usage data does suggest that there is a difference in the expected annual usage (and therefore revenue) between All Electric and Other customers, the PGE system usage data alone did not warrant as large of an incremental difference in the LEA's as PGE's initial application proposed ($2,560 and $1,593 per dwelling/unit). Staff expressed its preference that whenever possible, utility specific data be used rather than industry estimates.

PGE expressed that it was proposing to use the estimated annual usage data from the RTF (as opposed to PGE data) to calculate the All Electric LEA because of data reliability concerns including small sample sizes, improper tagging of a portion of the homes in its data set, and the utility's inability to verify the accuracy of information about appliances in a customer's home. PGE believes that the RTF data provides a more accurate estimate of a new All Electric customer's incremental annual usage.

On August 13, 2020, Staff, PGE, and CUB met a final time to discuss the Company's proposal. Subsequently, on August 20, 2020, the Company filed replacement sheets, lowering the proposed All Electric LEA from $2,560 to $2,260 per dwelling/unit.

The updated estimated annual consumption for the All Electric category is 12,980 kWh. This represents the average of the RTF data (14,692 kWh) and PGE system data from 2010-2017 (11,269 kWh). In the revised filing, PGE also agrees to an automatic review of the residential LEAs, to take place no later than June 2025.

Staff has reviewed the revised tariff sheets and finds them to be reasonable. While Staff notes that PGE's proposal to create two separate categories of LEA based on whether the customer is an All Electric customer appears to be novel (Staff is unaware of another electric utility with a similar structure), Staff finds that this reasonably comports with the principles of LEAs to base the allowance on a multiple of expected annual revenues.

Staff further notes that the proposal to use the midpoint between PGE's system usage data and the RTF estimates, with an automatic review to take place no later than June 30, 2025, is a reasonable compromise between Staff's preference to use Company-specific usage data and the Company's concerns that its data is not fully reliable or accurate at this time.

Using the midpoint between these two estimates allows PGE to achieve its goal to create two distinct residential LEA categories, while ensuring that the All Electric LEA is not significantly higher than PGE's data can justify at this time. Staff's intent is that the proposed automatic review will allow PGE sufficient time collect accurate survey and usage data for newly constructed all electric homes within its survey territory so that the residential LEAs can be updated based on PGE specific data if necessary.

Effects of Filing
PGE's proposed changes to the structure of its residential LEA policy will affect new residential customers requiring connection to PGE's system. As it is unknown how many customers will connect to PGE's system in the future, the corresponding number of affected customers is also unknown. As filed, the proposed changes do not result in an increase or decrease to customer prices.

The Company and CUB have reviewed this filing and expressed no issues or concerns.

<u>Conclusion</u>

Based on Staff's analysis of PGE's filing, the workpapers associated with the filing, and virtual meetings with the Company and CUB, Staff finds that the Company's updates to Schedule 300 results in rates that are fair, just, and reasonable.

PROPOSED COMMISSION MOTION:

Approve PGE's Advice No. 20-14, which updates its Schedule 300 Line Extension Allowance to revise its residential LEA policy, effective with service rendered on and after January 1, 2021, subject to the following condition:

1. No later than June 30, 2025, Staff and the Company will initiate a review of the residential LEAs and PGE's updated energy use data.