ITEM NO. CA11

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 22, 2022

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____**January 1, 2022**____

DATE: March9, 2022

TO: Public Utility Commission

FROM: Curtis Dlouhy and Michelle Scala

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

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UM 2219)
PGE's Application for Deferral of Costs and Revenues Associated with the Energy Affordability Act.

STAFF RECOMMENDATION:

Approve Portland General Electric's (PGE or Company) application to defer costs and revenues to implement rate mitigation measures authorized under HB 2475(7)(1).

Require PGE to establish a separate account to track and defer incremental administrative costs associated with rate mitigation measures authorized under HB 2475(7)(1).

DISCUSSION:

Issue

Whether the Commission should approve PGE's application to defer costs and revenues associated with rate mitigation measures authorized under HB 2475(7)(1) to support PGE's recovery of these costs through an automatic adjustment clause (AAC) and balancing account.

Whether the Commission should require PGE to establish a separate account to track and defer all other costs contained in this deferral.

Applicable Rule

PGE makes this filing in accordance with ORS 757.259, OAR 860-027-0300, and HB 2475. ORS 757.259 authorizes the Commission to allow a utility to defer, for later recovery in rates, expenses or revenues in order to minimize frequency of rate changes or to match appropriately the costs borne by and benefits received by customers. OAR 860-027-0300 sets forth several requirements for application to defer.

HB 2475(7)(1) provides that Commission may address the mitigation of energy burdens through bill reduction measures or programs that may include, but need not be limited to, demand response or weatherization.

HB 2475(7)(2) provides that the costs of tariff schedules, rates, bill credits or program discounts allowed pursuant to HB 2475(7)(1) must be collected in the rates of an electric company through charges paid by all retail electricity consumers, such that retail electricity consumers that purchase electricity from electricity service suppliers pay the same amount to address the mitigation of energy burdens as retail electricity consumers that are not served by electricity service suppliers.

Analysis

Background
On May 24, 2021, the Energy Affordability Act (HB 2475) was approved by Governor Brown. As a result of the passage of this law, the Commission is authorized to address the mitigation of energy burdens through bill reduction measures or programs that may include, but need not be limited to, demand response or weatherization. Practicably, utilities may now submit differential rates, including income-qualified discounts, to the Commission.

Under HB 2475(7)(2), the costs of tariff schedules, rates, bill credits or program discounts to mitigate energy burden must be collected in the rates of an electric company through charges paid by all retail electricity consumers, such that retail electricity consumers that purchase electricity from electricity service suppliers pay the same amount to address the mitigation of energy burdens as retail electricity consumers that are not served by electricity service suppliers.

PGE has made an advice filing utilizing the rate mitigation authority in HB 2475(7)(1). (*See* Docket No. ADV 1365, filed on January 13, 2021). If approved, the income-qualified bill discount proposed in Docket No. ADV 1365 will be effective April 15, 2022.

In this application to defer, PGE requests authority to defer all incremental operations and maintenance (O&M) costs and revenues associated with the implementation of HB 2475.[1] PGE explained that this deferral is to support recovery of all amounts associated with HB 2475 through an automatic adjustment clause adopted under ORS 757.210 and balancing account.

Staff held a workshop with PGE, PacifiCorp, and Citizens' Utility Board (CUB) to discuss the deferrals and proposed cost recovery on February 17, 2022. At these workshops, Staff expressed concerns with an AAC that included incremental administrative costs and wanted a means to re-evaluate the program after it has been established. PGE wanted to ensure that any spending that has been done since the effective date and before the approval of the deferral is included. CUB noted that deferring and tracking administrative costs separately gives the Commission an opportunity to review strategies used to reach out to customers and ensure that administrative costs are truly incremental and have not been previously recovered through base rates.

By the end of this workshop, all parties agreed in principle to support the following structure of PacifiCorp's and PGE's HB 2475 deferrals:

- An AAC and balancing account would be applied to the revenues collected to fund the qualified bill discounts and the costs associated with the qualified bill discounts.
- This AAC would have a sunset date to allow parties to revisit cost recovery once the programs have had time to mature.
- Incremental administrative costs would be separately deferred and tracked for later ratemaking.
- All costs would accrue interest at the modified blended treasury (MBT) rate. Parties agreed that the use of the MBT rate for the administrative costs would not be precedential for future deferrals given the interim nature of the HB 2475 rate programs.

Staff position
After reviewing both PacifiCorp's and PGE's applications to defer costs and revenues associated with HB 2475, Staff found that both applications are nearly identical in principle and should be given the same treatment. As such, Staff's position in this docket mirrors Staff's position in PacifiCorp's UM 2223 docket.

Staff shares the utilities' concerns about forecasting enrollment in the early days of these low-income bill discount programs. If a utility were to drastically underestimate enrollment, then it could be saddled with large costs that are subject to recovery under

[1] Application, page 3.

HB 2475(7). Likewise, if a utility were to overestimate enrollment, it could improperly recover large sums of money from its ratepayers that would not be channeled back to any energy-burdened customers. As such, Staff will recommend Commission approval of PGE's proposed AAC with a balancing account (filed in a separate advice filing), which mitigates both of these concerns.

Staff is supportive of Oregon-regulated utilities' efforts to implement low-income rate relief programs as quickly as is responsible, but must emphasize that differential rate proposals and relief programs proposed in advance of the Staff-led, broad HB 2475 implementation effort[2] are considered interim in nature. Part of Staff's desire to highlight these programs and cost recovery proposals as interim comes from the difficulties faced in forecasting enrollment, rate collection, and administrative costs. Staff finds it appropriate to allow the utilities to recover the costs associated with rate mitigation programs, but to also provide the Commission a clear opportunity to reassess the programs and implement any improvements. As such, Staff will recommend creating a sunset date of January 1, 2024, for the AAC.[3] Although changes may not be necessary if the program is well functioning, this allows the rate-discount program to mature for over a year and gives the Commission a chance to make changes.

With respect to the administrative costs, Staff believes that these costs should be tracked separately and not be subject to the AAC or balancing account. Staff shares CUB's concern of whether these administrative costs will be truly incremental and believes that separately deferring and tracking these costs provides a better avenue to ensure that these costs are incremental in nature. Further, Staff believes that deferring and tracking incremental administrative costs allows Staff to better evaluate the lessons learned from the early days of the low-income rate programs rather than having to make the interim evaluations that would be required if it were subject to the AAC and balancing account. PacifiCorp and PGE brought up concerns that this might lead to administrative costs being excluded from recovery due to unanticipated poor program performance. Staff expressed that we expect there to be some trial and error in determining cost effective ways to reach out to energy-burdened customers and administer the programs and that our intent is not to disallow recovery of these costs in the early days of these programs.

Finally, Staff clarifies that the costs included in this deferral are only those incurred pursuant to HB 2475(7)(1), which authorizes the Commission to approve rate mitigation measures or programs.

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2 Docket No. UM 2211.

3 An order allowing a deferral is effective for only 12 months and multi-year deferrals must be reauthorized annually. Accordingly, it is not necessary to include a sunset date for PGE's deferral authority.

Reason for Deferral
Granting this deferral will minimize the frequency of rate changes and match appropriately the costs borne by, and benefits received by, customers, in accordance with ORS 757.259(2)(e).

Proposed Accounting
In its application, PGE proposes the following treatment:

- The balancing account will be recorded in FERC Account 242 (Current Regulatory Liability).
- Income-qualified payments will be debited to Account 242 and credited to FERC Account 407.4 (Regulatory Credit).
- Revenues collected from PGE customers to support this program will be credited to FERC Account 242 and debited to FERC Account 407.4.
- Interest will accrue at the MBT rate. As previously pointed out, the use of the MBT rate on the deferred and tracked administrative costs was agreed upon by the parties and should not be viewed as precedential.

Estimate of Amounts
PGE estimates that the income-qualified energy discounts amount to be deferred will be approximately $4.2 million, with an additional $228,000 in incremental administrative costs.

Information Related to Future Amortization

- Earnings review – No earnings review is applicable due to the AAC.

- Prudence Review – A prudence review will be performed when updating the amounts for amortization as part of the AAC.

- Sharing – All prudently incurred costs are recoverable by PGE with no sharing mechanism.

- Rate Spread/Design – Costs will be allocated when updating the AAC.

- Three Percent Test (ORS 757.259(6)) – The three percent would not apply because of the AAC.

Conclusion

Based on discussions with PacifiCorp and PGE regarding the appropriate recovery mechanism for costs incurred under HB 2475(7), Staff recommends the Commission authorize PGE to defer of all costs and revenues incurred to implement rate mitigation measures implemented under HB 2475(7), subject to the following conditions:

- Incremental administrative costs will be separately deferred and tracked for later ratemaking.
- All costs would accrue interest at the modified blended treasury (MBT) rate.

PGE has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve Portland General Electric’s application to defer costs and revenues for rate mitigation measures implemented under HB 2475(7).

Require PGE to establish a separate account to track and defer incremental administrative costs associated with implementation of rate mitigation measures authorized by HB 2475(7).