BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 416

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY., Request for a General Rate Revision.	STAFF POSITION STATEMENT

On behalf of the Staff of the Public Utility Commission of Oregon (Staff) submits its Statement of Position as follows:

I. Power Cost Adjustment Mechanism

A. Should the Commission modify the existing PCAM Principles?

No. The PCAM was created in the 2000s to capture exceptional deviations in NVPC. Accordingly, to the extent changing weather leads to increases in costs beyond the utility's normal business risk, the current mechanism allows PGE to recover those costs, subject to sharing. PGE has not shown the current circumstances are so unique that the principles underlying the risk-sharing mechanism that has been in place for many years are no longer applicable. Even assuming modifications to the principles underlying the PCAM are appropriate, those proposed by PGE are not an improvement, and in fact, are not even reasonable. (Staff/2300, Ahmed – Dlouhy – Jent – Pileggi/4-20.)

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B. Should the Commission modify the current cost recovery mechanism for PGE's PCAM? If so, how?

i. Does the Commission wish to adopt the PCAM modifications proposed by PGE?

ii. Does the Commission wish to adopt CUB's proposed modification to the PCAM deadband of 100/50 basis points?

iii. Does the Commission wish to adopt Staff's alternative proposed multi-tiered approach?

The Commission should not modify the PCAM. As with the principles underlying the PCAM, PGE has not shown the circumstances today are such that the mechanism relied on by the Commission since 2007 is no longer appropriate. Importantly, power costs are now a smaller portion of the Company's overall costs than they were when the PCAM was adopted.

To the extent Staff provided a proposal for changing the PCAM, it was as a more reasonable alternative to the changes proposed by PGE. Meaning, if the Commission determines PGE has established a change to the PCAM is warranted, Staff recommends the Commission nonetheless reject PGE's proposed changes. If a change is necessary, Staff recommends the Commission choose one of Staff's two alternatives. (Staff/2300, Ahmed-Dlouhy-Jent-Pileggi/24-29.)

II. Decoupling.

A. Should a decoupling mechanism be reinstated. If so, how should it be designed?

Staff opposes the recommendation of the Northwest Energy Counsel (NWEC) and National Resource Defense Council (NRDC) to reinstate decoupling for PGE. Decoupling shifts risks to customers of economic cycles and diminishes utility incentives for transportation electrification activities.

Staff does not think reinstating decoupling is a reasonable trade for modifying PGE's PCAM. Staff opposes reinstatement of decoupling under any circumstances, including when it is paired with PGE's proposal to modify the PCAM. (Staff/3300, Stevens/28.)

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III. Associated Energy Storage Treatment

A. Should the Commission recognize standalone energy storage at the transmission-voltage level as "Associated Energy Storage" for purposes of the Renewable Automatic Adjustment Clause (RAAC), Schedule 122?

The Commission should maintain the status quo, allowing only storage co-located with qualifying generation into the RAAC until the Commission holds a proceeding to determine how to use the RAAC in a post-HB 2021 landscape. (Staff/1100, Dlouhy/22.) RPS compliance is not driving storage projects that the Company discusses in its Reply Testimony. (PGE/2700, Blosser-Sheeran/14, Staff/3400, Dlouhy/9.) Additionally, the Federal Energy Regulatory Commission's reasoning in its Luz Decision, supports co-location as an appropriate criterion for storage associated with a renewable resource. (Luz Dev. & Fin. Corp., 51 FERC ¶ 61,078, 61,172 (1990).)

Additionally, The Company's proposed definition is overly broad. (PGE/2700, Blosser-Sheeran/4; CUB/200, Jenks/53.) If the Commission were to allow standalone storage in the RAAC, investor-owned electric utilities would be able to recover essentially all new energy and capacity resources outside of a rate case. The same logic used to justify inclusion of standalone storage in the RAAC could then be used to justify inclusion of almost any transmission line into the RAAC or potentially to even investments in physical plants that integrate renewables. (CUB/400, Jenks/29.) This outcome appears wildly inconsistent with the context and intent of the statute.

B. Should the Commission adopt Staff's recommendation to open an investigatory docket into the definition of associated energy storage under the renewable portfolio standard and the use of the RAAC in light of HB 2021?

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In UE 355, the Commission noted that PGE's "decision to present issues concerning the meaning of 'associated' for our decision in a separate proceeding [outside the rate case] will allow all interested parties to help us interpret that term." (UE 335, Order No. 18-464, p12, Dec. 14, 2018.) Any decision regarding treatment of standalone storage should be made in a more generic proceeding with other utilities and stakeholders rather than a utility-specific rate case. (Staff/3400, Dlouhy/6.) This is necessary because altering the definition of "associated energy storage" impacts other electric utilities, the role of the RAAC in implementing HB 2021 has yet to be addressed, and other RAAC issues, such as depreciation, need to be discussed in a larger context. (Staff/3400, Dlouhy/10.)

IV. Deferrals and AACs

A. Should the Commission recognize the deferral mechanism as a separate mechanism from the AAC mechanism?

A deferral under ORS 757.259 is not the same as an automatic adjustment clause authorized under ORS 757.210 and a deferral is not interchangeable with an automatic adjustment clause. The Commission should certainly recognize the two mechanisms as such.

B. Should the Commission require a deferral for every automatic adjustment clause?

No. A deferral is required to implement a certain type of automatic adjustment – one with a retroactive ratemaking component. This is because the Commission's authority for retroactive ratemaking is limited by the legislature. Accordingly, for purposes of implementing an AAC with a retroactive ratemaking component, the Commission must rely on its deferral authority. An excellent example of such a mechanism is PGE's PCAM. Under the PCAM, PGE tracks the variance between its forecasted Net Variable Power Costs (NVPC) and its actual NVPC in a calendar year and either refunds or recovers that variance, subject to a deadband and sharing, in a subsequent calendar year. In contrast, PGE's Automatic Update Tariff (AUT) does not have a

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retroactive component. Accordingly, it is not necessary to have a deferral to implement the AUT. (Staff/3700, Dlouhy-Muldoon-Scala-Stevens.)

C. Should all AACs be presumed to be subject to an earnings test?

Staff supports approaching earnings tests as a default part of an AAC that has a retroactive component except where the Commission has directed otherwise; specifically, unless the Company, Staff or stakeholders can sufficiently demonstrate to the Commission that there is cause for an exception. AACs without application of an earnings tests give the Company a guaranteed stream of revenue that is almost entirely insulated from both its own internal operations and any outside forces that affect other industries whose stocks would be comparable to the Company's.

Staff recommends the Commission continue to determine the parameters on a case-by-case basis but start with the assumption an earnings test as a check on under or over recovery is appropriate for all AACs with a retroactive component. Staff's recommendation to apply this default assumption regarding earnings tests is meant to re-express the burden of proof upon the utility as a better balance of customer and shareholder risk. In making this recommendation, Staff believes that broad guidelines should be outlined to establish situations in which it may be appropriate to waive an earnings test on an AAC.

Staff has identified a few situations in which it could make sense to waive an earnings test.

- AACs that are used to collect revenue from one customer or customer class and transfer it to another customer or customer class in a revenue neutral manner. In this case, there is no additional revenue being captured by the Company, only a redistribution of revenues among the various classes.
- AACs that are used to collect or refund a particular percentage or quantity of revenue

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between the Company and customers through a legislatively mandated process.

- AACs where Staff, stakeholders, or the Company believe that waiving an earnings test creates significant operational efficiencies or aligns incentives in a productive manner.

Staff notes that this list is not meant to be exhaustive but rather identifies some of the situations where waiving an earnings test may warrant consideration. (Staff/3700, Dlouhy-Muldoon-Scala-Stevens/5-8.)

D. Regardless of whether an earnings test is presumed for all AACs, should an earnings test apply to schedules 150 and 153, as CUB proposes?

Yes. Schedule 150 concerns both the recovery of costs and matching the costs up to actual spending on Transportation Electrification (TE) investments. Staff believes it is reasonable and feasible to require an earnings test on the balancing account with conditions on the spending portion. Regarding Schedule 153, Community Benefits and Impact Advisory Group Cost Recovery Mechanism, an earnings test would appropriately allow the costs to be recovered contemporaneously and leave some small amount of cost recovery risk on the look-back portion of the AAC that would be based on the Company's overall earnings and their spending on the CBIAG. (Staff/3700, Dlouhy-Muldoon-Scala-Stevens/5-8.)

E. Should the Commission adopt CUB's proposal that all trackers should have sunset dates of not more than three years from their inception and that once the sunset date is reached, PGE must justify continuing the tracker in the opening testimony of the next general rate case?

Staff did not take a position on this proposal in testimony.

F. Should certain deferrals be consolidated or eliminated?

Yes. Certain existing schedules associated with AACs should be consolidated where the tariffs recover costs from the same customer groups to increase efficiency and streamline the ratemaking process. Staff has identified the following schedules as eligible for consolidation:

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- Schedules 137 (Customer-owned solar payment option cost recovery mechanism (CRM), 136 (Oregon Community Solar Program Start-up CRM), 150 (Transportation Cost Recovery), and 153 (Community Benefits and Impacts Advisory Group 13 CRM), as a single tariff.
- Schedules 135 (Demand 14 Response CRM) and 138 (Energy Storage CRM), as a single tariff. (Staff/3700, Dlouhy-Muldoon-Scala-Stevens/2.)

Staff also recommends shifting cost recovery for mature pilot programs from separate AACs into base rates, making the associated costs subject to the regular ratemaking process. By incorporating these costs into the base rates, a comprehensive evaluation of overall costs and fairness in cost recovery can be achieved. (Staff/3700, Dlouhy-Muldoon-Scala-Stevens/3.)

V. Miscellaneous Revenue Requirements Items:

A. Should the Commission adopt AWEC's proposal to change State Income Tax accounting from the current normalization method to a flow-through method?

Staff did not support this proposal in testimony.

B. How should rate base be determined?

Staff recommends the Commission determine PGE's total rate base for regulatory purposes using an average of monthly rate base averages methodology rather than a year-end total (December 31, 2023, the day before the rates go into effect) that PGE uses in this rate case. Staff's proposal to use an average of monthly averages methodology is not new and has been the Oregon Commission's favored method to calculate rate base. (Staff/3200, Stevens-Young/4-5.)

The Test Year is intended to be representative of the Company's normal operations. Staff opposes PGE's method because it does not recognize depreciation that will take place in the Test Year. Allowing PGE to ignore Test Year depreciation and keep the rate base estimate static as of December 31, 2023, increases PGE's Test Year Revenue Requirement by approximately $15.7 million. (Staff/800, Stevens-Young/4-8 and Staff/3200, Stevens-Young.)

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C. Should the Commission adopt AWEC's proposal to adjust the rental rate charged to PGE for the World Trade Center location?

Staff did not take a position on this issue in testimony.

D. Should the Commission adopt Staff's proposal to adjust the price and quantity of Fuel Stock?

Yes. Staff proposes the following adjustment to PGE's Fuel Stock in rate base based on adjustments to the amount of stock that is reasonably held in store and the prices used PGE used to value the stock: ($17,413,000). (Staff/2700, Ankum-Fischer/45-90, Staff/4000, Ankum.)

E. Should the Commission allow PGE to include the current balance of CO2 Allowance in rate base?

No, allowances are essentially different from fuels, such as oil and gas. Unlike fuel that needs to be available to instantaneously meet the Company's electricity demand, CO2 allowances can be purchased and sold at opportune times independent of the particular timing of electricity demand. This characteristic of CO2 allowance warrants a different justification for building up and maintaining a stock. PGE has not provided justification for maintaining a $3 million stock of CO2 allowances and thus, this amount should be removed from PGE's Test Year rate base. (Staff/2700, Fischer-Ankum/90-97.)

VI. T&D: Routine Vegetation Management (RVM)

A. What amount of RVM should PGE recover in base rates for the 2024 test year?

The Commission should approve of PGEs requested 2024 test year revenue less Staff's managerial disallowance. PGE is requesting a $23.6 million incremental increase to its VGM budget. (PGE/, Bekkedahl-Jenkins/11.) Staff proposed managerial disallowance is appropriate considering the significant increase in RVM spend proposed by PGE and represents roughly half a percent of PGE's proposed RVM budget (Staff 3300, Stevens/16). While labor costs have increased, this alone does not account for the significant increase for the 2024 test year revenues.

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B. Should the Commission adopt Staff's proposed performance-based rate (PBR) mechanism for RVM to impose an earnings test on the first $6 million of incremental RVM spend beyond what is in base rates?

Staff's proposed PBR mechanism is necessary to ensure that RVM expenditures are spent in a way that benefits customers. The Commission should approve the PBR based on vegetation violations on a trial basis to increase accountability for RVM performance and reduce regulatory lag. (Staff/2000, Stevens 24-26.) If PGE achieved compliance with OAR 860-024-0016, PGE would feel no financial impact. (Staff/3300, Stevens/6.) Staff recommends the Commission:

- Impose a PBR mechanism for RVM based on vegetation violations (tree contacts)
- Impose the PBR mechanism on trial basis for three years (2024-2027)
- Implement the violation thresholds from Order No. 22-491 (shown in table below)

Level	Threshold	Penalty
Level I	150	1oo bps
Level II	225	150 bps
Level III	325	200 bps

C. Should there be a balancing account for any incremental/decremental amount spent beyond the levels established in subpart A.? If so, should the amounts in the balancing account be subject to a deferral and an earnings test?

A balancing account is appropriate to address the uncertainty of future costs related to the RVM and mitigate any cost-shifting incentives created by the Wildfire Mitigation Vegetation Management (WMVM) mechanism. (Staff/2000, Stevens/21-22.) Staff recommends the commission should:

- Require a balancing account for any incremental/decremental amount spent beyond what has been included in base rates.
- The balancing account should not be subject to an earnings test
- The balancing account should be subject to deferral of any annual difference between base rates and actuals, up to the dollar amount approved in base rates, to allow the

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Commission to consider how to address this differential.

VII. Production

A. Should the Commission adopt a proposed reduction to costs recovered for generation outside services?

Staff did not take a position on this issue in testimony.

B. Should a Qualifying Facilities Pass-Through Mechanism be established to address the volumetric and price risk associated with PURPA mandated QF projects?

Yes. Staff recommends the Commission modify the Automatic Update Tariff (AUT) to allow a "pass-through" of qualifying facility (QF) purchase costs, which would work as follows:

- PGE forecasts QF costs for the following NVPC test year based on the rolling average of the most recent full years of QF generation, up to three historical years.
- PGE files a deferral application to defer for later recovery or to refund the variance between forecasted and actual QF costs.
- After the conclusion of the forecasted year, PGE's actual QF costs would be compared to forecasted costs. The resulting surplus or deficit would be passed through to customers the following AUT proceeding as either a charge or a refund to customers based on the difference between the contract price collected from customers in the NVPC forecast and the day-ahead Mid-C power price.

The variance captured with this mechanism would capture any delay damages the QF pays for failing to meet the contractual online date. The price for the Mid-C would include a weighting of the light load and heavy load hours by the respective hours in the day.

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To ensure the pass-through mechanism is protecting against changes to the QF's output and not wholesale price changes, Staff recommends calculating the pass-through adjustment in mWh as follows:

(QFfpj - QFAaj) * (Mid CAaj - QFpcj)

- Let "p" stand for supplier, "f stand for forecast, "A" stand for actual, "C" stand for cost or price of the QF project, and j for hours (1 to 8760 hours).
- If the QF output forecast matches actual output there is no adjustment.
- If the QF for supplier p for hourly price c as in the QF power purchase contract for hour j is the same as the Mid C actual price in hour j there is no adjustment.
- For example, if the forecast mWh output is greater than actual and the QF price is greater than Mid C then the adjustment to power cost is negative (credit to customers). (Staff/3600.)

VIII. Compensation:

A. Should the Commission adopt Staff's unresolved adjustment to the Test Year wages and salary expense and rate base?

Yes. Staff recommends a permanent adjustment to Wages and Salaries in rate base of ($458,856). Staff recommends a permanent rate base adjustment to FTE of ($3,518,704). Staff recommends a permanent rate base adjustment to incentives of ($2,208,099). This is a total recommended permanent reduction to rate base of $6,185,659.

Staff recommends the Commission direct PGE to include this adjustment to rate base in future general rate filings and to depreciate the rate base adjustment consistent with the asset lives for which the labor was contributing to. (Staff/3600, Jent).

B. Should the Commission adopt CUB's proposal to reduce the PGE-offered employee discount on electric service from the current 25% to 5%?

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Staff did not take a position on this proposal in testimony.

IX. Property Insurance Premiums

A. What amount of costs should be recognized for Property Insurance premium rates?

Staff proposes no adjustment to PGE's original 2024 request for expense for property insurance recorded in FERC Account 924 except for expense related to Clearwater Wind, which PGE has agreed to remove from Test Year expense. (Staff/3000, Chipanera/7-8.)

X. ROE

A. What should be PGE's authorized Return on Equity (ROE)?

Staff recommends a point ROE estimate of 9.4 percent 9 within a range of reasonable ROEs of 9.13 percent to 9.53. This recommendation is presented by Staff witness Matt Muldoon, the range and point estimate are derived from two separate Three-Stage Discounted-Cash-Flow (DCF) models, which are the models the Commission has traditionally favored for ROE analysis. Staff employed two simpler models to check the reasonableness of its findings: Single-Stage DCF or Gordon Growth Model and a Capital Asset Pricing Model (CAPM). (Staff/400, Muldoon and Staff/2900, Muldoon.)

XI. Income Qualified Discount Program

A. **What changes does the Commission think are appropriate design parameters for the Income Qualified Bill Discount (IQBD) Program?**

The Commission should adopt a five tier State Median Income Structure (SMI) as shown in the table below, using a sliding scale for tiers 0 and 1. (Staff/3100, Scala/5.) A sliding scale for tiers 0 and 1 is intended to reduce unintended programmatic inequalities between income thresholds, use limited funds in a strategic and equitable way, and align the program with energy burden across income tiers. (Staff/3100, Scala/20-21.) These changes are needed to address the dramatic rate pressure on energy burdened households in a time when rate increases are outpacing inflation. (Staff/600, Scala/9.) Staff recommends the Commission:

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- Adopt a five tier IQBD structure based on SMI.
- For Tiers 0 and 1; a sliding discount scale should be applied in decrements of 3.5 percent.
- For Tiers 2; 3; and 4; discounts will be a static percentage of bill across the income bracket.

Five Tier SMI Structure		
Tier	Income as % of SMI	Discount
Tier 0	0-5%	Up to 90%
Tier 1	6-15%	Up to 70%
Tier 2	16-30%	25%
Tier 3	31-45%	20%
Tier 4	46-60%	15%

B. **Is PGE's proposed Low Income Needs Assessment Study (LINA) suitable?**

PGE surrebuttal position is that they intend to conduct the LINA in 2024, but do not specify when it will begin or be completed. (PGE/4100, Radcliffe-Macfarlane/16.) Peer utilities that have independently pursued energy burden assessments did so nearly two years ago. This data has been used to inform engagement, HB 2475 program design and other decision-making tables by the utilities, Staff, stakeholders, and community. There has been unanimous support for the collection of this type of information and throughout UM 2211 engagement, interested parties have requested LINAs and more granular demographic information and environmental justice metrics to assess program efficacy and system inequities in PGE's service territory. (Staff/3100, Scala/12.)

PGE should conduct a LINA to be completed no later than January 1, 2025, making its analysis and results available to the public. (Staff/3100, Scala/14.) The LINA should include, but not be limited to, data on household demographics, energy burden, environmental justice metrics, and customer participation in assistance and energy assistance programs by customer segment.

Staff recommends the Commission require:

- The LINA be completed no later than January 1, 2025.
- PGE to work collaboratively with Staff and stakeholders to determine the parameters (scope and cost), objectives, and key deliverables for the LINA.

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- The results and analysis of the LINA be made public to the level of granularity agreed upon between the utility, Staff and stakeholders; and
- PGE to host engagement with Staff and stakeholders to interpret the findings and inform HB 2475 programs, including but not limited to appropriate discount tiers and redesigns of applicable programs.

XII. Additional Energy Justice Items

Staff testimony did not directly recommend to 1) initiate a proceeding (which authorizes discovery or discovery like access to data to reform residential customer rates to limit energy burden in the long run; 2) initiate an investigation to determine criteria/metrics/processes all utilities shall employ to comprehensively integrate energy justice into decision making and, specifically, all facets of a general rate case; or 3) convene a multi-agency (including OHCS, ETO, ODOE) proceeding to identify how to better utilize weatherization programs to address energy burden as directed by HB 2475 (2021). However, it is Staff's intention to use Docket No. UM 2211 to facilitate these investigations. To the extent UM 2211 is not the right venue, Staff is interested in exploring opportunities to ensure the issues described above are explored. (Staff/600, Scala/2-24.)

SIGNED this 15th day of September, 2023.

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