PACIFIC POWER
A DIVISION OF PACIFICORP

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September 20, 2021

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Salem, OR 97301-3398

RE: PacifiCorp's ADV 1310/Advice No. 21-020, Schedule 98 Adjustment Associated with the Northwest Electric Power Planning and Conservation Act.

I. INTRODUCTION

PacifiCorp d/b/a Pacific Power (PacifiCorp or Company) filed Advice No. 21-020, to incorporate the increase in Schedule 98 Bonneville Power Association (BPA) Residential Exchange Program (REP) Credit for the fiscal year 2022-2023 rate period. As part of this advice filing, PacifiCorp proposed to eliminate the inverted block rate design which applies a credit to only the first 1,000 kilowatt-hours (kWh) per month and instead apply a flat credit to all eligible kWh of usage. A flat credit format more equitably distributes the credit to all eligible residential customers based on usage. This flat credit helps eliminate some problematic incentives and inequitable outcomes that result from the current tiered rate design. By making this change now rather than in the future, it minimizes the impact of this change on customers.

Staff recommends that the Public Utility Commission of Oregon (Commission) suspend the Company's application to modify the Schedule 98 BPA REP Credit and open an investigation to examine the Company's proposal to flatten the tiered rate structure of the credit for residential customers. Alternatively, Staff suggests that such an investigation could occur in the Company's next general rate case. Staff offers two reasons for this investigation. First, providing the credit to only the first 1,000 kWh of usage for each customer betters fits the purpose of the REP. In summary, the concern is that the benefits should be allocated closer to a per customer basis, because the benefits to farms are capped at a particular energy usage quantity. Second, Staff contends that a more holistic investigation is appropriate, because of the many considerations that exist in residential rate design and Staff's assertion that the existing REP rate design played a role in Staff's support of the stipulation in the Company's last general rate case in Docket UE 374 (2021 Rate Case).

The Commission should reject Staff's recommendation and approve the Company's proposed changes to the Schedule 98 BPA REP credit effective October 1, 2021. First, providing the benefit for all residential kWh usage is sound public policy that promotes equity and affordability. Specifically, this change would provide benefits to higher-usage low-income customers. Second, the expansion in the level of benefits provided under the REP credit for this current cycle affords the ideal time to make this change with very minimal impacts to any customer. Third, contrary to Staff's arguments, a flat per kWh credit is actually more consistent with the purpose of the REP credit. Finally, the settlement that created this tiered structure for the REP provided minimal policy guidance, and there is now sufficient information in this advice letter proceeding to make this change.

II. COMMENTS

A. Applying the REP Credit to all Residential Energy Usage is Good Public Policy

Historically, the concept of tiered residential energy charges was something that the Company had once supported to promote energy efficiency. The theory is that the first block covers some basic level of usage at a lower rate to help keep the overall bill affordable for customers and a second block with a higher rate makes incremental energy usage more expensive. For a customer with usage in the higher tiers, making energy efficient choices like installing light-emitting diode lights will yield greater savings than would have been achieved under a flat energy charge rate design. As articulated in the 2021 Rate Case[1] the Company's views have evolved as the impacts on customers are better understood and it now believes that inclining tiered energy rates are no longer appropriate in light of changes in the electric industry and the likelihood of further evolution in the energy landscape of the future. Tiered rates are unfair, are not economically justified, and create perverse incentives. Providing the REP credit to only the first block of usage has the effect of more steeply tiering the net rate that residential customers pay.

Charging a higher rate for greater monthly usage is not fair, because it often punishes customers for reasons outside of the customer's control or in ways that incentivize behaviors that are at odds with changes in energy policy. For example, customers who have a lot of people living in one household are far more likely to use more energy. Also, customers who choose to install a heat pump instead of using fossil fuels to heat their home or who simply live in an older house or in a rural location that does not have access to natural gas will likely have disproportionately more usage above the first block. An email survey that the Company conducted in 2017 shows that while lower income customers tend to use on average a little less energy per month than higher income customers, a greater proportion of lower income respondents used more than 1,000 kWh per month than higher income customers. This survey also shows that lower income customers are nearly half as likely to heat their homes with natural gas than higher income customers. Table 1 below illustrates these disparities and how more expensive usage in the second block can harm lower income customers.

[1] *In the Matter of PacifiCorp d/b/a Pacific Power, Request for a General Rate Revision*, Docket No. UE 374, Exhibit PAC/1400, Meredith/34-41 (Feb. 14, 2020).

Table 1. Usage Characteristics and Household Income from PacifiCorp's 2017 Residential Customer Survey

	Income Level		
Average Monthly Usage Level	Below $50,000	$50,000 to $74,999[1]	$75,000 and greater
0 - 1,000 kWh	41%	61%	62%
1001 - 1,500 kWh	46%	25%	27%
1,501 kWh and over	13%	14%	11%
Average Monthly Usage (kWh)	941	966	990

	Income Level		
	Below $50,000	$50,000 to $74,999[1]	$75,000 and greater
Natural Gas Used as Main Fuel for Heating	30%	44%	56%
Sample Size	6,889	3,723	6,316

[1] Note - $60,212 was the median household income in Oregon in 2017 per https://www.deptofnumbers.com/income/oregon/

Tiered rates are not economically justified, because the overall quantity of monthly energy consumption for a residential customer itself does not affect the per kWh cost of service. The timing of energy consumption, both seasonally and during different hours, can affect the utility's cost of providing kWh to the customer. The load factor, or the effective utilization of kWh consumption relative to peak kilowatt demand, can also change the average cost of providing energy. However, the 1,001st kWh used is not marginally more expensive than the first kWh used.

Finally, tiered rates create perverse incentives, because while they may encourage using less electricity, they can undermine overall energy efficiency by making the electrification of transportation and heating more expensive. A customer who gets an electric vehicle or who replaces their oil-fired furnace with a heat pump will consequently use more kWh per month. A tiered rate discourages this type of behavior.

B. The Increase in the Level of REP Benefits Makes this the Ideal Time to Enact this Change

During the prior two-year cycle from October 2019 through September 2021, pricing for Schedule 98 was designed to credit eligible customers $40.0 million annually. In the present cycle, the annual level of benefits to be credited to eligible customers has increased to $55.2 million. This expansion of benefits makes it possible to provide access to the credit for usage over 1,000 kWh while simultaneously only having a de minimis impact to customers using less than 1,000 kWh. The present residential REP credit, which is applicable to only the first 1,000 kWh of usage each month, is 0.934¢ per kWh. With the expanded benefits, the Company's proposed REP credit which would be applicable to all kWh usage would be 0.914¢. The greatest impact this change would have on any residential customer would be a $0.20 per month or about 0.2 percent increase for a customer using 1,000 kWh. Per the Company's 2017 survey data, the average monthly usage for a lower income customer who heats with electricity in the winter season is about 1,600 kWh. Expanding the REP credit to all usage would result in a $5.28 or 3.1 decrease for a bill at this usage level. Expanding the REP credit to all usage levels now makes sense given the greater level of benefits that are now available.

C. A Flat per kWh REP Credit is Consistent with the Program's Purpose

The calculation of the level of REP benefits that are made available to PacifiCorp's eligible customers is directly based upon the Company's energy sales to eligible customers. Residential usage at all levels, below and above 1,000 kWh, drives the share of REP benefits made available. Contrary to Staff's assertion, sharing the benefits with all usage better aligns with the language in the Pacific Northwest Power Planning and Conservation Act, which states that the cost benefits under the REP "shall be passed through directly to such utility's residential loads."[2] PacifiCorp's change better reflects the intent of this legislation, which is to ensure that all customer loads benefit from the residential exchange program.

D. No Further Investigation is Needed

The REP credit was restricted to the first 1,000 kWh of monthly usage for residential customers as part of a stipulation in the Company's 2011 general rate case in docket UE 217. The Company supported the stipulation in UE 217, but when reviewing the record in that proceeding, the record provides very little insight into why it was believed that was an appropriate policy outcome. As a result, the information presented by the Company in this proceeding provides a more robust policy reasoning on why the Company's proposed change is appropriate now, when there is a greater understanding of the customer impacts of this tiered rate design. The Company believes that an investigation right now is unnecessary and would only delay the expanded benefits of the REP for customers. Sufficient evidence exists now for the Commission to approve the Company's application as just, reasonable and in the public interest. If the Commission does require an investigation, the Company believes that it should be conducted separately from a rate case, so that action can be taken sooner.

[2] 16 USC §839c(c)(3).

III. CONCLUSION

With the expansion of the REP credit, the Commission has a unique opportunity to shift the structure of this rate design in a manner that benefits customers while minimizing the impact of the change. Specifically, this change supports the affordability of utility rates for higher-usage low-income customers. If the credit is expanded for only the first block of energy usage and an investigation is pursued as recommended by Staff, then this opportunity will be lost. As a result, PacifiCorp requests the Commission approve the advice letter as filed, in order to ensure the most beneficial outcome for customers.

Sincerely,

Shelley McCoy

Shelley McCoy
Director, Regulation