

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 8, 2019

REGULAR X CONSENT _____ EFFECTIVE DATE March 13, 2019

DATE: March 4, 2019

TO: Public Utility Commission

FROM: *JE* George Compton and *NH* Nadine Hanhan

THROUGH: *JE* Jason Eisdorfer, *JC* John Crider, and *JB* JP Batmale

SUBJECT: PACIFIC POWER: (Docket No. ADV 918/Advice No. 19-003)
Schedule 12—Quarterly Meter Reading Pilot for Residential Non-Standard
Metering and Schedule 300.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve an Equal Payment Plan Meter Reading option for residential non-standard meter reading for Pacific Power's (PacifiCorp or Company) AMI opt-out customers, which requires denial of Advice No. 19-003 as filed. Staff recommends that the Commission direct PacifiCorp to file tariff sheets incorporating Staff's recommended changes to its Advice No. 19-003, for service rendered on and after March 13, 2019.

DISCUSSION:

Issue

Whether the Commission should approve an Equal Payment Plan Meter Reading Pilot for residential non-standard meter reading for Pacific Power's AMI opt-out customers, which requires denial of Advice No. 19-003 as filed. Staff recommends that the Commission deny PacifiCorp's Advice 19-003 and direct PacifiCorp to file tariff sheets incorporating Staff's recommended changes to its Advice No. 19-003, for service rendered on and after March 13, 2019.

Applicable Rule or Law

This filing is made in compliance with ORS 757.205 and OAR 860-022-0025.

- ORS 757.205 requires that public utilities file all rates, rules, and charges with the Commission.
- ORS 757.210 establishes a hearing process to address utility filings and requires rates to be fair, just and reasonable.
- OAR 860-022-0025 requires that new tariff filings include statements showing the new rates, the number of customers affected, the impact on annual revenue, and the reasons supporting the proposed tariff.

Analysis

Background

Since PacifiCorp began implementing its advanced metering infrastructure (AMI) meters in its service territory, a number of customers have chosen to stay with the prior meter technology, which requires on-premises meter reading. The Commission previously approved several charges for customers that opt-out of AMI meters, including a charge to recover the cost of installing a standard meter, a future removal fee, and a monthly meter reading charge of \$36.¹ In 2018, the Company indicated that it had received feedback related to its AMI deployment, explaining that "customers are concerned about these fees and their ability to opt-out of AMI installation given the financial impacts of the approved opt-out fees."²

In response to customer questions and comments, PacifiCorp requested to suspend its future removal fee.³ During an AMI Update with the Commission in November 2018, the Commission asked PacifiCorp to consider opt-out rate options that required fewer manual reads. In response to this request, the Company filed two advice filings (Advice No. 19-001 and Advice No. 19-003), which contain proposals allowing for fewer meter reads per year. The filings also address the costs associated with the AMI meter opt-out by modifying Schedule 300.⁴ PacifiCorp filed Advice No. 19-001, requesting authorization to implement a Fixed-Bill (F-B) rate option, on January 11, 2019. PacifiCorp also filed Advice No. 19-003, requesting authorization to implement an Equal Pay Plan (EPP)/Quarterly Meter Reading rate option on February 4, 2019.

On February 8, 2019, the Company hosted a workshop to discuss these filings. Representatives of Oregon's Citizen Utility Board (CUB) and Oregon Public Utility Commission (OPUC) Staff participated in the discussions. Staff and CUB expressed

¹ *In re PacifiCorp*, OPUC Docket No. UE 322, Order No. 17-113 (Mar. 21, 2017).

² Docket No. ADV 821/Advice No. 18-006. Accessible at <https://edocs.puc.state.or.us/efdocs/UAA/uaa1600.pdf>.

³ *In re PacifiCorp*, OPUC Docket No. UE 348, Order No. 18-301 (Aug. 16, 2018).

⁴ Originally, Schedule 300 included a \$36 monthly fee. Advice No. 19-001 and 19-003 reduced this monthly fee to \$9 and \$12, respectively, per month.

concerns with the Fixed-Bill option and made suggestions for how to improve the EPP. Following another workshop held on February 27, 2019, and with the same parties represented as before, PacifiCorp decided to withdraw the Fixed-Bill application.

Descriptive Overview of the Equal Pay Plan (EPP)/Quarterly Meter Reading Proposal
PacifiCorp proposes a new Schedule 12, which would reduce the number of meter reads to four per year, with a \$12/month fee for meter reads, and would substitute a single rate for the two-part inverted rate of the standard Residential Schedule 4. The combination of the single rate and quarterly meter read was designed to mitigate adverse consumer reactions to an unexpected, high billing *accrual* that would appear on the customer's bill following a periodic meter-read. PacifiCorp would also require participants to enter into an equal payment plan based on the historical invoices for the residence. That plan is already in place for conventional customers. It entails a year-end billing true-up that accounts for the differences between the quarterly equal-pay bills and the bills that would have reflected actual usage. Although the EPP proposal has been submitted as a pilot, no participation cap is proposed.

To understand EPP billing, it is helpful to first see how it works for residential customers whose meters are read every month. When a customer elects to go onto the EPP, the base monthly bill and monthly billing accrual will continue to be calculated by the same residential, inverted-block-rate Schedule 4 that had produced his prior bills. The kWh used in calculating the equal-pay/base monthly bill (i.e., the amount to be paid to the utility every month) is the simple average monthly consumption, i.e., the total annual kWh consumption divided by twelve. The monthly statement for this EPP customer will show 1) the "new charges"/accrual bill (i.e., the Schedule 4-based amount that the customer *would have to pay* for the month's usage were he not registered with EPP), 2) the equal-pay bill to be paid for the current month, and 3) the month's current account balance, which starts with the prior month's current account balance, adds the new charges, and subtracts the equal-pay payment. On a month-by-month basis the customer can track the degree to which his ultimate true-up debit/credit is being added to or subtracted from.

To account for the fact that over the course of the enrollment year a customer will inevitably end up, on both a monthly and a cumulative basis, either using more or less than the estimated kWhs that make up the customer's base bill, the EPP calls for an end-of-year true-up which compares observed usage-based billing accruals with the actual billings. If the customer is determined to have overpaid, the customer will receive a credit; under-payment will result in a charge to the customer. As stated in Section H of Rule 10, "On the annual review month, the actual accounts receivable balance (debit or credit) shall be incorporated into the estimate for the next twelve months of the E.P.P."

[i.e., the Equal Payment Plan] unless the Customer requests that the account balance be settled [i.e., cashed out] at that time.”

Under the quarterly proposal of this application, instead of Schedule 4, the new, proposed Schedule 12 single-rate would be used to calculate the base bill and, for a given three-month meter-reading period, what each of the three months' accrual bills would have been if each month's usage had been the monthly average kWh usage for the three month period. Schedule 12 involves a weighted average of the two Schedule 4 rates, and is based upon dividing the total residential schedule revenues by the annual kWh.

Recommended Modifications to the Equal Pay Plan (EPP)

Staff appreciates PacifiCorp's consideration of and proposal to implement an Equal Payment Plan option for opt-out customers. Staff does, however, recommend some modifications to PacifiCorp's proposed Schedule 12 as filed. These modifications can be regarded as applying to key features, but not to the core of PacifiCorp's proposal. Staff's three recommendations address whether the offering should be in the form of a pilot or a permanent schedule, how many meter readings should be involved over the course of the twelve-month contractual period, and what price, or combination of prices, should be used in calculating both the base bill, which the customer is to pay each month, and to the meter-reading-interval kWh accruals.

Staff recommends that the following changes be made to PacifiCorp's Advice No. 19-003, as filed:

1. Meters should be read three times per year.
2. Apply the existing Schedule 4 to an average kWh based upon the four months between meter readings.
3. Make the opt-out EPP program permanent, rather than a pilot program.

Staff appreciates that the EPP option uses a true-up and appreciates that the same Section H of Rule 10 true-up policy will be applied to our residential customers whose meters are not read monthly. As discussed more fully below, Staff departs from the Company's proposal in its substitution of a new, single-rate Schedule 12 for the standard, inverted-rate residential Schedule 4.

Staff (and CUB) also have a strong preference for only three readings per year, as opposed to the Company's proposed four manual meter readings per year. Three readings would translate to \$9 per month rather than the \$12 per month under the quarterly proposal.

Staff understands that *accurate* monthly monitoring of the accrual balance is impossible when meters are only read three or four times a year. As described earlier, under the Company proposal, what becomes the accurate account balance takes the prior balance (i.e., from three months before) and calculates the three months' (equal) new charges by dividing the three months' kWh usage by three and calculating those charges by applying its proposed Schedule 12 single rate to the three-month kWh average. Staff's recommendation would be to apply the existing Schedule 4 to an average kWh based upon the four months between meter readings.

The Company's motivation behind the quarterly meter-read and substituting a new Schedule 12 rate for Schedule 4 rates was to mitigate the threat of having a customer be distressed about an unanticipated high current account balance following a particular meter reading. Quarterly meter reading would allow only a three-month build-up of a high accrual balance, rather than four. And with the weighted-average, Schedule 12 single-rate being lower than the inverted tail-block rate of Schedule 4, large users (i.e., those most likely to be shocked by a large balance) would have a commensurately lower accrual balance than they would have had under Schedule 4—and therefore be less likely to be shocked and distressed. Staff recognizes that when applying Schedule 4 rates, a bill based upon three months of usage will be more accurate than a bill based upon four months.⁵ But the question is whether that greater accuracy along with some potential reduction in customer dismay would justify having all the reduced meter-reading customers paying \$12/month for meter reading rather than \$9/month.⁶

Some of Staff's arguments for a \$9/month triannual-based meter-read charge, combined with staying with the standard Schedule 4, versus the \$12/month quarterly-based alternative, combined with a flat-rate, new Schedule 12, are as follows:

1. The new Schedule 12 has a single price, which is a weighted average of the two prices, with a cross-over volume of about 1350 kWh. That means that a customer who uses more than 1350 kWh would pay less with the single price than under Schedule 4; a customer using less than 1350 kWh would pay more. The PacifiCorp average monthly residential usage is about 900 kWh—making the average-level consumer who chooses the EPP worse off under the single rate. On the other hand,

⁵ Consider the case where the meter reading period straddles the winter and spring months and where the customer is a really heavy winter user. With three months (two winter and one spring) to determine the period's accrual, the customer will be well up on the inverted-rate usage block—signifying a larger bill than if another spring month had been added to bring down the average. The inter-season bill averaging slightly mitigates the potential shock from a high end-of-period current account balance.

⁶ Also, be reminded that whatever dismay/shock a customer experiences in observing a high current account balance, that dismay/shock is mitigated by the fact that payment won't have to be made regarding any excess accrual until its being spread over the twelve months following the end of the current EPP twelve-month cycle.

the EPP customer with monthly billings above the 1350 kWh level would pay more than the Schedule 12 customer.

2. The Schedule 4 rate for energy over 1000 kWh is about two cents greater than the pre-1000 kWh rate. The overall rate is around 11 cents per kWh, so two cents is a well-sized price signal that would be heavily diluted with a flat rate. Consider a customer whose annual monthly average is the 900 kWh/month amount, but whose winter and summer is well above that amount while being well below that amount in the spring and fall. Under Schedule 4, the customer would accrue billings commensurate with the greater generation fixed cost burden associated with the peak heating and cooling months. Conversely, the off-peak seasons' accruals would be lower than what they would be under Schedule 12. With its flat rate, Schedule 12 captures none of the seasonal/adverse-load-factor cost relationships which are important when considering the equity/cost-causation nature of customer billings. The greater peak-season billing accruals would help communicate the costs the customer is imposing on the system. The billing/price signal should foster greater economic efficiency in consumption choices as customers strive to minimize their monthly usage. In Staff's estimation, the merits of maintaining the Schedule 4 price signal for all of the EPP customers outweigh the benefits of shock reduction for the subset of customers who may be expecting a lower current account balance at the end of their meter-reading periods.
3. Staff is convinced that limiting the monthly meter reading charge to the smallest amount possible is the overriding and primary concern of the affected opt-out customers. For this reason Staff supports three annual meter reads over quarterly reads, as this will have the result of a smaller monthly charge to the customer. As described previously, Staff understands the concern regarding the possibility of bill shock for certain customers, but that risk seems comparatively small compared to the likelihood of wide negative reaction to larger monthly meter reading charges.
4. For those customers who might experience a bill shock under the program, there are actions the Company can take to help mitigate the negative reaction to a large bill. For instance, an estimate of the current balance can be printed in each month's bill based upon an estimate of that month's usage. Since most customers who enter the reduced meter-reading arena will have posted prior year's usage levels, workable estimates of accrued account balance can appear in each month prior to the meter-read end month based upon the kWh usage in the corresponding month in the previous year.⁷ Another useful measure would be to do for these customers

⁷ In the case of a customer lacking a prior year's history, relatively accurate monthly usage estimates can be made on the basis of the household size and the number and types of appliances, e.g., whether electricity is used for heating/cooling, and if so, what technology is employed. These types of estimates are employed on a routine basis, particularly for countryside installations in determining the appropriate "line extension" fee to be imposed on the new customer (since heavy anticipated usage reduces, or even eliminates that fee).

what is done for conventional EPP customers: state the actual average temperature for the current billing month along with the average for that same month in the previous year. That way, if there has been a major weather change and the customer uses electricity for space heating/cooling, the customer would have some expectation regarding what may be a major source of a "shocking" end-of-period account balance. Finally, kWh usage for the current multi-month period can be compared with usage for the same period in the previous year. If the period is ordinarily a high-usage period, e.g., mid-winter or summer, then the customer can compare the two usages and understand the basis for current billing accruals that exceed current payments, thereby producing the "shocking" current account balance. To summarize, risks of end-of-meter-reading-period shock regarding the current account balance can be reduced dramatically without increasing the frequency of meter reads or departing from the standard, inverted-rate Schedule 4.

Finally, Staff is also recommending that the modified PacifiCorp proposal be made a permanent schedule rather than a pilot. Staff sees no need for EPP customers to harbor concerns that they would be participating in a pilot that sooner or later will be suspended, with uncertainty about what would replace it. As modified by Staff, the EPP proposed for the non-AMI metered customers is the same Section H/Rule 10 Equal Pay Plan that has been in effect for monthly-meter-read customers for decades; and bills would be calculated using the same Schedule 4 that applies to standard residential customer. It is Staff's recommendation that the suitably modified EPP be made available to customers under the auspices of a permanent schedule rather than as a pilot.

Conclusion and Recommendations

Customers who opt out of AMI meters should be afforded the opportunity to avoid most of the cost burden of multiple meter readings. For the reasons discussed above, Staff finds that three modifications to PacifiCorp's EPP option are warranted, and therefore recommends that the Commission direct PacifiCorp to file tariffs in accordance with these recommendations: First, Staff recommends that meters be read three times per year, rather than four times per year. Second, Staff recommends that Schedule 4, rather than Schedule 12, apply to the average kWh based upon the four months between meter readings. Finally, Staff recommends that this be implemented as a permanent tariff option, rather than a pilot program.

PROPOSED COMMISSION MOTION:

Approve an Equal Payment Plan Meter Reading option for residential non-standard meter reading for Pacific Power's (PacifiCorp or Company) AMI opt-out customers. Deny PacifiCorp's Advice No. 19-003 as filed, and direct PacifiCorp to file tariff sheets incorporating Staff's recommended changes to its Advice No. 19-003, for service rendered on and after March 13, 2019.