

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 11, 2020**

REGULAR **CONSENT** **EFFECTIVE DATE** January 1, 2020

DATE: August 3, 2020

TO: Public Utility Commission

FROM: Mitchell Moore and Nick Sayen

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(UM 1514(9))
Application for Reauthorization of Deferral of Incremental Costs
Associated with Non-Residential Demand Response Pilots.

STAFF RECOMMENDATION:

Approve Portland General Electric's (PGE or Company) application for reauthorization to defer, with interest, the incremental costs associated with the Automated Demand Response Pilot (ADR Pilot) for the 12-month period beginning January 1, 2020.

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (OPUC or Commission) should approve PGE's request for reauthorization to defer, with interest, the incremental costs associated with the Automated Demand Response Pilot, for later recovery in rates.

Applicable Law

The deferral of incremental ADR costs and recovery through an automatic adjustment clause (Schedule 135) were initially authorized by Commission Order No. 11-182, as part of a two-year pilot program. PGE submitted its deferral application on December 20, 2018, pursuant to ORS 757.259 and OAR 860-027-0300.

ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later Inclusion in rates. OAR 860-027-0300 are the Commission's rule governing the use of deferred accounting by energy and large

telecommunications utilities. Previous approval of this deferral was most recently granted by Order No. 19-151.

Analysis

Background

The deferral of incremental ADR costs and recovery through an automatic adjustment clause (Schedule 135) were initially authorized by Commission Order No. 11-182, as part of a two-year pilot program. The Commission has authorized PGE to defer these each year since 2011. PGE seeks reauthorization with this filing for the period January 1, 2020 through December 31, 2020.

Description of Amounts

Amounts requested for deferral include administration, vendor and equipment costs related to the pilot, as well as incentive payments to program participants.

Reasons for Deferral

Pursuant to ORS 757.259(2)(e), PGE seeks to continue deferred accounting treatment for the incremental costs associated with the ADR pilot. The granting of this reauthorization application will minimize the frequency of rate changes and match appropriately the costs borne by, and benefits received by, customers.

Proposed Accounting

PGE proposes to record the deferred costs in FERC account 182.3 (Regulatory Assets), with the offsetting credit recorded to FERC account 131 (Cash).

Estimate of Amounts

PGE estimates the amounts to be deferred in 2020 to be approximately \$3.7 million. Prior deferral amounts varied from \$3M a year during the first two years of the program, an estimated \$1.4M in 2017 – due in large part to lower than expected program participation - to an estimated \$3.1M in 2019.

Information Related to Future Amortization:

- Earnings review – An earnings review does not apply to an automatic adjustment clause, pursuant to ORS 757.259(5). If the pilot program is deemed successful, PGE proposes to have costs of the ADR program flow through PGE's Annual

Power Cost Update (Schedule 125) and Power Cost Adjustment Mechanism (PCAM) (Schedule 126), and be subject to the earnings reviewed contained within the PCAM.

- Prudence Review – A prudence review should include a verification that deferred amounts are incremental, and verification of the accounting methodology used to determine the final amortization balance.
- Sharing – if the ADR is deemed successful, then the proposal is for subsequent costs to flow through PGE's Annual Power Cost Update (Schedule 125) and Power Cost Adjustment Mechanism (PCAM) (Schedule 126). The PCAM is subject to the dead bands and sharing percentages as specified by Commission Order Nos. 07-015 and 10-478.
- Rate Spread/Design – Per Commission Order No. 11-517, tariff Schedule 135 will allocate the costs of the ADR on the basis of an equal percent of forecast generation revenues.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year. Because PGE is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit.

Current ADR Pilot Period (2017 - 2020):

In contrast to the first two stages of the ADR program, PGE's current pilots are administered directly by the Company to its customers, with support from a program implementer and a technology integrator/demand response management system (DRMS) provider.

PGE revised the ADR pilot, along with Schedule 77, to create two pilots towards meeting PGE's goals of greater than 27 MW of peak load reduction by 2021 across all nonresidential segments and products. The Non-Residential Direct Load Control (DLC) Pilot, Schedule 25, provides Commercial customers with a more easily deployed DLC program. The Non-Residential Pricing Pilot, Schedule 26, resembles Schedule 77 but offers customers a larger variety of offerings based upon the results of the Energy Partner evaluations conducted by Itron (provided previously under Docket No. UM 1514), market research from Hansa customer interviews, focus groups, and Navigant report.

Recommended Revisions and Reporting Requirements:

Staff recommends the utility continue to submit the following updates to Commission Staff:

- PGE must keep on file, and be ready to submit copies of, all contracts signed by participating customers;
- Each quarter PGE will submit to Staff an informational filing containing a spreadsheet of each participating customers nominated load and event performance. PGE may redact identifying information if necessary and file as confidential the unredacted filing.
- PGE will run their loss of load probability, Renewable Energy Capacity Planning (RECAP), model with demand response parameters.¹
 - Staff suspects that PGE may be overly conservative in the application of their de-rate factor when calculating program cost effectiveness and believes that such a conservative approach may be hindering PGE's willingness to invest in resources to bring about additional demand response program proposals. While clear direction on calculating demand response has not been given to PGE it is important that PGE, the Commission, and stakeholders continue to iterate until such time as the Commission has the capacity to comprehensively address demand response cost effectiveness.
- A final evaluation will be submitted in the second quarter of 2021, after the next three operating seasons and the planned end of the Pilots.

Conclusion

Staff reviewed PGE's application and supporting program work papers. In previous deferral applications, PGE has demonstrated a cost effectiveness score of 1.03 with the revised program structure now internal to the Company.² In addition, the requested \$3.7M for 2020 appears consistent with the expected participation and costs of operating the program internal to PGE.

The rationale for this deferral is still valid, and the Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300. For these reasons, Staff recommends PGE's application be approved.

¹ For a description of the methodology see UM 1708, PGE's Compliance to Order No. 15-203 (April 28, 2016): Navigant - A Proposed Cost-Effectiveness Approach for Demand Response.

² See UM 1514, PGE's Supplemental Application, Attachment C, Dated 9/21/2017.

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PROPOSED COMMISSION MOTION:

Approve Portland General Electric's application for reauthorization to defer, with interest, the incremental costs associated with the Automated Demand Response Pilot (ADR Pilot), be approved for the 12-month period beginning January 1, 2020.

PGE UM 1514 (9) PGE ADR Deferral