

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 19, 2018

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE April 18, 2018

DATE: June 12, 2018

TO: Public Utility Commission

FROM: Mitchell Moore *MM*

*Jason JE*

THROUGH: Jason Eisdorfer, and John Crider *JC*

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1827(1)) Requests reauthorization to defer costs associated with the PGE Demand Response Water Heater Pilot.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Portland General Electric Company's (PGE or Company) request for reauthorization to defer costs associated with its Demand Response Water Heater Pilot for the 12-month period beginning April 18, 2018.

**DISCUSSION:**

Issue

Whether the Commission should grant PGE's request, reauthorizing deferral, for later ratemaking treatment, of the costs associated with its Demand Response Water Heater pilot program.

Applicable Law

757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.

ORS 757.259(2)(e).

OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

In Order No. 05-1070, Docket No. UM 1147, the Commission determined that interest may accrue interest on deferred accounts at the authorized rate of return until amortization. Subsequent orders in Docket No. UM 1147 establish the rate during amortization. See Order Nos. 08-263, 10-279.

## Analysis

### *Background*

On June 28, 2017, with Order No. 17-224, the Commission approved the original deferral filing for PGE's Demand Response Water Heater Pilot. That order provided that the automatic adjustment clause found in PGE's Schedule 135 entails deferring the incremental costs incurred for a Demand Response Water Heater Pilot for the summer of 2017 through 2019. As such, costs associated with the deferral are amortized through PGE's Schedule 135, Demand Response Cost Recovery Mechanism.

The purpose of the program is to retrofit existing water heaters in multifamily residences (MFRs) with demand response technology in order to help inform an effective design for a water heater demand response program, quantify energy consumption that can be shifted to different times, determine appropriate incentive levels for customers, integrate and test different technologies, and implement different demand response dispatch strategies.

PGE's 2016 Integrated Resource Plan (IRP) discussed various types of demand response, including those that utilize smart water heaters. Smart water heaters (installed with digital controls and the ability to readily attach communications equipment) are an important demand resource for PGE and present a wide array of use cases such as load shedding, load shifting and providing ancillary services.

The program targets MFR housing because of its high concentration of electric water heaters. The pilot, in addition to installing demand response-enabled technology on existing water heaters, also provides a monetary incentive to MFR property managers to replace aging water heaters with demand response capable water heaters (i.e., smart water heaters).

MFR demand response water heaters address a hard-to-reach segment of the residential market where few demand response technologies are currently feasible. Water heater demand response also supports PGE's mid-term demand-side management initiatives by allowing the researching of synergies between water heater demand response and smart thermostat programs. Further, water heaters represent a distributed resource, which supports PGE's long-term smart grid initiatives, as each water heater can be controlled to meet specific demand response needs. Finally, water heater demand response is a more flexible resource compared to other forms of demand response because it requires no notification, is a year-round resource, and has minimal customer comfort impact.

As of this filing, PGE has selected both a vendor for implementation and a Demand Response Management System (DRMS) vendor. PGE is currently in the process of testing integration between the water heater retrofit switch and the DRMS, and expects that it would be able to control water heaters with the switch as of the end of May 2018.

#### *Description of Expense*

Expenses for this deferral include: the cost of implementing the communication interface; managing defaults or repairs; and managing new participant enrollment; software licensing; data plan subscription; and PGE marketing.

#### *Reason for Deferral*

The use of deferred accounting for this pilot 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 amount as a regulatory asset in FERC account 182.3, Other Regulatory Assets, with a credit to FERC account 456, Other Revenue.

*Estimate of Amounts*

PGE estimates the incremental costs of the pilot will be approximately \$5.1 million through the end of 2019, as illustrated in the following table:

Year	2017 Actual	2018	2019	Total
Pilot Cost	\$65,273	\$2,051,000	\$3,011,277	\$5,127,500

*Information Related to Future Amortization*

- Earnings review – An earnings review is generally required prior to amortization of deferrals, pursuant to ORS 757.259(5). However, because this is associated with the Schedule 135 automatic adjustment clause, an earnings review will not be performed.
- Prudence Review – A prudence review is required prior to amortization and should include the verification of the accounting methodology used to determine the final amortization balance. In addition, PGE will submit a pilot evaluation report that will provide detailed cost summaries, estimated kW shifting and the result of customer surveys.
- Sharing – There is no sharing under the filed mechanisms.
- Rate Spread/Design – The demand response pilot amortizations will be spread as specified in Schedule 135.
- 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. The limit for these deferrals will be determined at the time of amortization.

Conclusion

The proposed multifamily residential demand response pilot is a cost effective investment in a necessary demand side resource and associated long term communication infrastructure. The program is expected to produce net benefits to

ratepayers while advancing PGE's demand response capabilities. Staff recommends approval of the request for reauthorization of incremental program costs.

**PROPOSED COMMISSION MOTION:**

Approve PGE's application for reauthorization to defer the costs associated with the Demand Response Water pilot program, for the 12-month period beginning April 18, 2018.

PGE UM 1827(1) – DR Water Heater pilot