ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 6, 2021

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____**November 8, 2020**____

DATE: March 29, 2021

TO: Public Utility Commission

FROM: Mitchell Moore and Eric Shierman

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

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UM 1977(2))
Requests reauthorization of deferred accounting for start-up costs associated with the Community Solar Program Implementation.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Portland General Electric's (PGE or Company) application to reauthorize deferred accounting of start-up expenses related to the Oregon Community Solar Program (CSP) for the 12-month period beginning November 8, 2020.

DISCUSSION:

Issue

Whether the Commission should approve Portland General Electric's application to defer for later rate-making treatment of O&M start-up costs related to the development of the CSP.

Applicable Rule or Law

Portland General Electric submits this deferral application in accordance with ORS 757.259 and OAR 860-027-0300 seeking an order from the Oregon Public Utility Commission (OPUC) that authorizes the company to defer start-up costs related to the CSP in such a way that will support an automatic adjustment clause rate schedule with an associated balancing account mechanism to track the ongoing costs and recovery amounts for the O&M start-up costs of the program.

ORS 757.259 authorizes the Commission to allow a utility to defer expenses or revenues for later recovery in rates in order to minimize the frequency of rate changes or to appropriately match the costs and benefits to customers. OAR 860-027-0300 sets requirements for deferral applications for energy and large telecommunications utilities.

ORS 757.386 and OAR 860-088-0160 permit utilities to recover all start-up costs prudently incurred during the development or modification of the CSP in electric company rates. Further, the rules specify that these costs include both:

- Start-up Program Administrator (PA) and Low Income Facilitator (LIF) costs; and
- Utilities' prudently incurred start-up costs.[1]

<u>Analysis</u>

Background
The Community Solar Program, implemented in Senate Bill (SB) 1547 and codified at ORS 757.386, establishes a program for the procurement of electricity from community solar projects. The Commission's subsequent CSP rules required electric companies to conduct several activities in support of the program, such as entering into a 20-year power purchase agreement with a certified project.

The CSP framework established by the Commission provides for a program start-up phase for program development and an on-going phase that will start once the CSP is fully operational.

In accordance with SB 1547 Section 22(7)(c) and OAR 860-088-0160 regarding CSP funding, electric utilities can recover start-up costs prudently incurred during the development or modification of the program (start-up phase) through electric utility rates. On-going costs related to the program will be collected from program participants, and will not be deferred.

Description of Amounts
As defined in OAR 860-088-0160(1), start-up costs include costs associated with the Program Administrator (PA) and Low Income Facilitator (LIF), and each electric utility's prudently incurred start-up costs associated with implementing the CSP. These costs include, but are not limited to costs associated with customer account information transfer and on-bill crediting and payment, but exclude any costs associated with the electric utility developing a CSP solar project.

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[1] OAR 860-088-0160(1).

Reason for Deferral
PGE seeks deferred accounting treatment of the O&M start-up costs associated with the PA, LIF, and the implementation of the CSP pursuant to ORS 757.259(2)(e). The deferral is necessary as SB 1547 requires the implementation of the program and allows utility recovery of all prudently incurred CSP start-up costs. The associated O&M start-up costs are not currently in base rates and granting this application would minimize the frequency of rate changes and appropriately match the costs and benefits to customers.

Deferral of Unsubscribed Energy
PGE has requested to also include unsubscribed energy costs in this deferral. This is the value of energy purchased by the Company that is generated by the portion of a CSP project that has not been subscribed by a CSP participant. When purchasing unsubscribed energy from a CSP project, the utility pays the "as-available" rate, which represents the avoided cost of energy, as defined in PGE's Schedule 201. Therefore, Staff argues that there is no incremental cost associated with the Company's purchase of unsubscribed energy from CSP projects. Staff met with PGE in February 2021 and PGE agreed that there is no incremental cost to unsubscribed energy, and therefore no costs will be deferred.

Proposed Accounting
PGE proposes to continue recording O&M start-up costs associated with the CSP as a regulatory asset in FERC account 182.3 (Other Regulatory Assets), with a credit to FERC account 456 (Other Revenue). In the absence of a deferred accounting order from the Commission, PGE would record costs to various FERC expense accounts.

Estimate of Amounts
At the time of filing, PGE declined to estimate the total costs to be incurred for supporting the CSP because the processes and procedures for the implementation of the program continue to be under review and development. PGE noted that during the previous deferral period, the Company incurred approximately $1.5 million of start-up costs in the form of payments made to the program administrator. The program administration costs are expected to be similar during the next 12-month period, based on the PA contract. However, PGE cannot yet estimate what portion of those costs would be covered by CSP participants versus recovered from ratepayers.

Program participants will begin paying for program costs after their projects are certified and begin operating. The portion of program costs that will be covered by participants during the deferral period is uncertain because the commercial operation date and number of subscribers for each CSP project is unknown. Further, PGE reported to Staff that the Company had not yet estimated the cost of its own information system upgrades being implemented to support bill credit payments to participants, but will provide that estimate to Staff when available.

Information Related to Future Amortization

- Earnings Review – PGE proposes that cost recovery associated with the CSP start-up not be subject to an earnings review as it would be subject to an automatic adjustment clause.
- Prudence Review –The prudence review should include verification of the accounting methodology used to determine the final amortization balance.
- Sharing Percentages – All prudently incurred costs are to be recoverable by PGE with no sharing mechanism.
- Rate Spread/Design – Applicable costs will be allocated to each schedule using the applicable schedule's forecasted energy on the basis of an equal percent generation revenue applied on a cents-per-kilowatt hour basis.
- Three Percent Test (ORS 757.259(7) and (8)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. This test limits 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. The amortization of the CSP start-up costs will be subject to the three percent test.

Cost Allocation
Per Order No. 20-173, PGE will be unique in collecting costs from direct access customers. The Commission provisionally adopted PGE's cost allocation methodology for costs associated with the above-market bill credits under the CSP, the incremental cost of subscribed energy. When appropriate, PGE will refile Schedule 136 to reflect the methodology for spreading policy driven costs established in UM 2024. So this provisional approval is understood to remain in place until the method of CSP cost recovery from Direct Access consumers is determined in UM 2024.

Remaining Issues
While the Commission provisionally approved PGE's cost allocation methodology, the Commission has not yet approved a method for calculating the incremental cost of subscribed energy. Staff will reach out to stakeholders and utilities to forge a common method for all three electric companies and make a recommendation to the Commission later in 2021.

PGE has reviewed this memo and has stated no objection.

Conclusion

Staff concludes PGE's request to continue deferring the O&M start-up costs associated with the CSP meets the requirements of ORS 757.259 and OAR 860-027-0300, and should be approved by the Commission. Staff supports the inclusion of subscribed energy costs, though the method for calculating such costs is yet to be determined. PGE agreed with Staff that there are no incremental costs to defer for the Company's purchase of unsubscribed energy.

PROPOSED COMMISSION MOTION:

Approve PGE's application to reauthorize deferral of O&M start-up costs associated with the CSP start-up for the 12-month period beginning November 8, 2020.