

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 19, 2022**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: April 14, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UM 2234)
Request for Deferral of Costs Associated with the Flexible Load Demand Response Pilots.

STAFF RECOMMENDATION:

Staff recommends that the Public Utility Commission of Oregon (Commission) approve Portland General Electric's (PGE or Company) application to authorize deferred accounting of costs associated with its flexible load demand response pilots for the 12-month period.

DISCUSSION:

Issue

Whether the Commission should approve the authorization of deferred accounting of costs associated with Flexible Load Demand Response (DR) Pilots.

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include, "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 fluctuations of rate levels or to match appropriately the costs borne by and benefits received by ratepayers."

In OAR 860-027-0300(3), the Commission has set the requirements for the contents of deferred accounting applications. Applications for authorization must include a description and explanation of the entries in the deferred account, up to the date of the application for authorization, as well as 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).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

The approval of PGE's Flexible Load Multi-Year Plan, Commission Order No. 22-023, included direction for PGE to consolidate five demand response pilots and programs into one deferral.

Analysis

Background

On March 1, 2022, PGE filed its initial application in Docket UM 2234. Commission Order No. 22-023 adopted OPUC Staff recommendation that PGE consolidate the budgets for these pilots. As a result, this application combines five demand response pilots: Nonresidential Demand Response Program (also called Energy Partner Demand Response) (Schedule 26), Residential Direct Load Control Pilot (also called Residential Smart Thermostat) (Schedule 5), Residential Peak Time Rebates (Schedule 7), Residential Time of Use (Schedule 7), as well as the Smart Grid Testbed Pilot Phase II (Schedule 13).

Nonresidential Demand Response Program (Schedule 26)

The Nonresidential Demand Response Program is designed to reduce peak demand requirements during specific time windows in the winter and summer seasons by incenting customers to reduce their energy consumption during those times. PGE expects the primary source of this reduced demand (load) will be from large nonresidential customers, with an option for small and medium nonresidential customers to participate as well. This program provides capacity and it may evolve to provide intra-hour grid services to support reliability and renewables integration. As of January 2022, the program has built 26.8 MW of summer capacity and 21.9 MW of winter capacity.

Residential Direct Load Control (DLC) Pilot (Schedule 5)

The DLC Pilot aims to enroll and operate connected residential thermostats to control electric heating and cooling load. This pilot provides firm capacity. In order to participate in the pilot, PGE residential customers must operate a ducted heat pump, electric forced-air furnace, or central air conditioner. As of January 2022, the pilot has established 28 MW of summer capacity and 9 MW of winter capacity.

Flex 2.0 – Residential Peak Time Rebate (PTR) and Residential Time-of-Use (TOU) (Schedule 7)

The Flex 2.0 Residential Pricing Pilot consists of two offerings: Peak Time Rebates and a new TOU rate. Both provide energy use optimization by shifting use out of high demand periods to provide peak reduction.

The vast majority of PGE's residential customer base is eligible to participate in the PTR pilot; enrollment increased by approximately 34,000 residential customers by the end of 2021. The PTR pilot provides educational energy saving tips and rewards customers for shifting their energy use during typically 3-4 hour "event" periods when energy demand or prices are high and/or renewable energy sources are less plentiful. This helps PGE use more sustainable energy resources, lower costs, and provide customers with reliable energy. .

Customers are notified one day prior to the event via text and/or e-mail, based on their preference, and encouraged to shift usage during the event hours of the following day. Customers also typically receive a same-day event reminder. After the event, they are notified of the result of their specific effort and, if applicable, their earned incentive. Customers earn \$1.00 for every kWh they shift during an event; the rebate appears as a credit on their next monthly bill. There is no "penalty" should a customer use more than expected energy during an event, making PTR a no-risk, "win-only" offering for customers.

In 2021, the load shift impact ranged between 10 MW and 17 MW. Slightly more than half of our residential customers earned rebates during each event; the average value of each rebate was approximately \$2 to \$3 per event.

Time of Use (also referred to as Time of Day) is a rate designed to encourage behavioral change that supports customers efficient use of PGE's system. More than 1,600 customers have enrolled in the program since its introduction on May 1, 2021. PGE expects that number to increase to 17,000 by year-end 2022 pending introduction of an online rate calculation tool (an essential tool in the customer's decision-making process) and increased enrollment outreach. Time of Day is a critical component in the company's overall product engagement and distributed energy resource strategy. As

such, it is the “glue” that can bind multiple products and services together (e.g., Smart Thermostat, Electric Vehicle Charging pilot, and PTR) in a way that delivers a curated experience for a customer based on known preferences, needs, and eligibility. Enabling a clear customer journey that paves the pathway toward product bundling of this nature will drive customer satisfaction, engagement, and retention while supporting PGE’s strategic objectives.

Smart Grid Testbed (SGTB or Testbed) Pilot Phase II (Schedule 13)

The SGTB Pilot selected three neighborhoods in relation to three substations (Roseway, Delaware, and Island) in three cities (Portland, Milwaukie, and Hillsboro, respectively), collectively representing approximately 20,000 PGE customers.

These substations and the customers taking service from them collectively create a representative subset of PGE’s customers across the residential, commercial, and industrial customer types. Customers in these neighborhoods participate in a range of pilots and demonstrations with some of the pilot enrollments on an opt-out basis. The Testbed team coordinated related demand response customer offerings within the Testbed pilot area, such as pilots for customer energy storage, electric vehicle charging, and where possible, with the Energy Trust’s energy efficiency products. The coordination of these DR offerings with the Testbed is expected to provide insights into interactive effects of running several different pilots within the same customer premises or system geography.

In addition, the Testbed is expected to provide insights into coordinated demand response product and program offerings as PGE aligns our DR activity with the Energy Trust and the Northwest Energy Efficiency Alliance to take advantage of benefits around co-messaging, sharing delivery channels, and incentives.

Description of Expense

In alignment with the policies and requirements of the State of Oregon and Commission, PGE developed demand response pilots to help address decarbonization goals, assist customers in managing their energy consumption and total energy costs, and enhance operational performance and efficiency. PGE’s demand response pilots comply with Oregon’s policy directives and support PGE’s decarbonization and performance imperatives.

Reason for Deferral

Pursuant to ORS 757.259(2)(e), and for the reasons discussed above, PGE seeks deferred accounting for costs associated with the Flexible Load Demand Response Pilots.

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 the appropriate FERC accounts.

Estimated Deferrals in Authorization Period

PGE expects the total incremental Flexible Load Demand Response Pilots amount to defer in 2022 to be approximately \$8.2 million.

Information Related to Future Amortization

- Earnings Review – Cost recovery associated with this deferral will not be subject to an earnings review because it would be subject to an automatic adjustment clause (PGE Schedule 135).
- Prudence Review – A prudence review should be performed by the Commission Staff as part of PGE's deferral or amortization filings. The prudence review will include the verification of the accounting methodology used to determine the deferred amounts, as well as a review of all costs and revenues proposed for amortization. For example, in reviewing the prudence of the program evaluation costs, Staff will look for compliance with OAR 860-087-0030 and OAR 860-087-0040.
- Sharing – These deferrals are not subject to a sharing mechanism.
- Rate Spread/Rate Design – Costs will be allocated to each schedule using the applicable schedule's forecasted energy based on an equal percent of generation revenue applied on a cents-per-kWh basis, as approved in PGE Schedule 135.
- Three Percent Test (ORS 757.259(6)) – The amortization of the Pilots' deferred costs will be subject to the three percent test, which measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (with exceptions) 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.

Conclusion

Based on Staff's review of PGE's application, Staff concludes that the Company's application is reasonable and meets the requirements of ORS 757.259 and OAR 860-027-0300 without detriment to customers.

The Company has reviewed this memo and voiced no concerns.

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PROPOSED COMMISSION MOTION:

Approve PGE's application for deferred accounting of costs associated with the Flexible Load Demand Response Pilots.

PGE UM 2234 Flexible Load DR Deferral