ORDER NO. 23-472

ENTERED Dec 13 2023

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 424

In the Matter of PACIFICORP, dba PACIFIC POWER, Revision of Rule 13 Line Extension Policy.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on December 12, 2023, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Nolan Moser
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. RA1

PUBLIC UTILITY COMMISSION OF OREGON
REDACTED STAFF REPORT
PUBLIC MEETING DATE: December 12, 2023

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** December 12, 2023

DATE: December 4, 2023

TO: Public Utility Commission

FROM: Madison Bolton

THROUGH: Caroline Moore and Scott Gibbens **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UE 424)
Revision of Rule 13 Line Extension Policy

STAFF RECOMMENDATION:

Affirm approval of PacifiCorp's advice filing to modify its Oregon Rule 13, find that PacifiCorp's Oregon Rule 13 is no longer subject to investigation and refund under ORS 757.215(4), and direct PacifiCorp to change the long-run incremental cost study in its next general rate case to ensure that distribution voltage customers larger than 25,000 kilowatts are not overallocated distribution and substation costs.

DISCUSSION:

Issue

Whether the Oregon Public Utility Commission (Commission) should affirm its decision to approve Pacific Power's (PacifiCorp or the Company) advice filing to modify PacifiCorp's Oregon Rule 13 – Line Extensions to limit the Line Extension Allowance provided to customers requiring more than 25,000 kilowatts (kW) to the cost of metering equipment necessary to measure the Customer's usage.

Applicable Law

ORS 757.205 requires that every public utility file with the Commission all rates, tolls, and charges which are established and in force for any service performed by it within the state. Public utilities must also file all rules and regulations that affect rates charged or to be charged with the Commission. *Id.*

Per ORS 757.220, utilities may not make any change to any rate schedule without at least 30 days' notice to the Commission.

When a utility files for a rate or schedule changes under ORS 757.210, the Commission may suspend the rate or schedule or allow it to go into effect pursuant to ORS 757.215. Under ORS 757.215(4), if the rate or schedule goes into effect, the Commission may subject such rate or rate schedule to a refund pending an investigation.

OAR 860-022-0025(2) sets for the requirements for filing tariffs or schedules changing rates. Each energy or large telecommunications utility filing tariffs or schedules changing existing tariffs or schedules shall submit therewith the following information:

(a) A statement plainly indicating the increase, decrease, or other change thereby made in existing rates, charges, tolls, or rules and, regulations;
(b) A statement setting forth the number of customers affected by the proposed change and the resulting change in annual revenue; and
(c) A detailed statement setting forth the reasons or grounds relied upon in support of the proposed change.

Analysis

Background
On August 17, 2023, PacifiCorp filed Advice No. 23-016 to revise the Company's Oregon Rule 13 – Line Extensions, which was subsequently docketed under ADV 1534. Rule 13 governs PacifiCorp's line extension policies, including the calculation of line extension allowances for different customer classes and sizes.[1]

PacifiCorp's main revision adds a requirement that customers with loads of 25,000 kilowatts (kW) or greater will not receive an extension allowance above the cost of metering necessary to measure the applicant's usage. Prior to this revision, an applicant over 1,000 kW taking delivery at Secondary or Primary voltage would receive an extension allowance equal to the estimated annual revenue that the applicant would pay the Company in one year.

On September 25, 2023, the Commission approved PacifiCorp's Advice No. 23-016 subject to refund, and directed Staff to investigate the filing further to gather additional perspective from the Company and stakeholders.[2] The Commission opened Docket

[1] A line extension allowance is an amount the utility will pay to cover upfront costs associated with connecting a new customer to the utility system. It is often calculated based on guaranteed annual revenue of the customer.
[2] Commission Order No. 23-344.

No. UE 424 to facilitate further stakeholder input, which included two opportunities for parties to provide written comments and a workshop where Staff and stakeholders engaged in a robust dialogue with the Company about its proposal and alternative approaches for mitigating the risk of connecting new, very large loads at the distribution level.

Risks from New Large Customers
PacifiCorp states that the Company is increasingly receiving service requests from extraordinarily large customers, such as data center owners and developers, totaling **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** PacifiCorp's current Oregon load.[3] The infrastructure required to connect a new load is identified on a case-by-case basis through a detailed system impact study; however, PacifiCorp indicates that very large customers typically require a dedicated substation, new transmission and distribution lines, or other facility upgrades. The Company has estimated that the line extension cost per MW could be as high as **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** based on the historic costs to connect new large customers. Staff estimates that this could result in total line extension costs as high as **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**.

When new large customers connect to the PacifiCorp system at the transmission voltage level, the customer owns and operates the substation and other investments constructed to serve their load. When new large customers seek service at the distribution voltage level, the infrastructure will be owned and operated as a utility asset and a cost allocation determination must be made. PacifiCorp's line extension policy has been used to allocate these costs based on the customer's expected revenue and contract minimum billing (CMB) requirements have been used to ensure that projected revenue materializes. Both tools use generic formulas that were not designed to address the size of customer PacifiCorp is anticipating. Given this extreme scale, new approaches are needed to adequately address the level of cost-shifting risk that these few large entities place on all other utility customers.

In the event the applicant's load does not reach the expected amount or the applicant leaves the system before the investment is recovered, other customers would be responsible for the cost of the unused capacity and infrastructure. There is no method to recover the remaining portion of the line extension allowance in this case because its calculation is based on annual revenue of the applicant. Part of the problem also lies in the Company's calculation of Contract Minimum Billing (CMB). For most types of customers, CMB requirements enable the Company to recover extension allowances through the customer's rates. However, the CMB calculation is relatively general and

[3] UE 424 / Advice 23-016, PacifiCorp's Confidential Reply Comments at 1, (November 13, 2023).

applied across all sizes of non-residential customers. This raises a concern that the current calculation may not be adequate to recover the investments from these extra-large customers under distribution voltage rates. PacifiCorp explains that larger customers pay significantly less than smaller customers in delivery costs as a percentage of their entire cost of service, while the CMB calculation still gives large customers a 20 percent revenue credit to offset facilities charges.[4] This general calculation may be inadequate to recover this magnitude of line extension allowances.

The issues regarding load materialization and CMB requirements raise concerns that other customers could end up bearing large investment costs for equipment that singularly serves a large customer.

Review of PacifiCorp's Proposal

Staff appreciates the Company's efforts to provide data, engage in workshop discussion, and respond to written comment. Discussion of the proposal focused on two elements: the criteria for identifying customers subject to a different line extension allocation and the possibility of over allocating costs to these customers.

PacifiCorp's proposal relies on a simple MW size threshold for identifying customers subject to a different line extension policy, rather than an approach that considers the upgrades required by the customer or the benefits those upgrades may or may not have for other customers. Therefore, Staff and other stakeholders requested additional evidence that 25,000 kW was an appropriate threshold for these extra-large customers. PacifiCorp explained that the size threshold is designed as a proxy for requiring a dedicated substation[5] The Company also provided a comparison of line extension costs for customers below 25,000 kW versus much larger distribution voltage customers, demonstrating the larger customers had nearly triple the cost per MW of line extension than customers below 25,000 kW.[6]

Staff also notes that a customer above 25,000 kW could take service at the transmission level and own and operate the necessary electrical equipment while receiving lower rates. However, prior to the Company's modifications to Rule 13, customers could opt to take delivery at Primary or Secondary distribution voltage and receive a line extension allowance.

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[4] UE 424 / Advice 23-016, PacifiCorp's Reply Comments at 6-7 (November 13, 2023).

[5] In response to OPUC Information Request 01, the Company explains that a 25,000-kW load typically utilizes an entire 25 megavolt-amperes (MVA) transformer, therefore substations are usually not sized any larger. The Company's mobile transformer fleet is also sized at 25-30 MVA per transformer due to transportation limitations. Making substations larger than 25,000 kW could reduce the Company's ability to restore power using their mobile transformers.

[6] UE 424 / Advice 23-016, PacifiCorp's Reply Comments at 7 (November 13, 2023).

Parties also discussed the potential for customers to be overallocated system infrastructure costs. With PacifiCorp's changes to Rule 13, distribution level customers over 25,000 kW would pay the full costs for their extension up front. However, under the current long run incremental cost (LRIC) study these customers would be allocated a portion of the Company's costs for all other customers' distribution and substation infrastructure in retail rates. If PacifiCorp's Rule 13 changes are affirmed, the LRIC should be altered in the next general rate case so that large customers affected by the Rule 13 changes are not overallocated distribution and substation costs in retail rates. This provides consistent treatment with transmission-level customers in addition to preventing overallocation. After discussions with PacifiCorp, Staff anticipates that there will be an opportunity to make this change to the LRIC prior to any customers energizing who would be affected by the Rule 13 changes. Additionally, PacifiCorp provided responses to information requests stating that it is possible the Company may file a rate case in 2024[7] and that it takes at least two to three years for the customer to begin taking service from the time the Company receives a customer request.[8]

Stakeholder Alternatives and Positions
Alliance of Western Energy Consumers (AWEC), Amazon Data Services, Inc. (ADS), and Oregon Citizen's Utility Board (CUB) participated in the workshop and submitted comments throughout this process.

CUB is supportive of PacifiCorp's proposed changes, agreeing that it provides a safeguard against potential stranded assets and cost shifting.[9] CUB also states that, not only is removing the line extension allowance a warranted change, it is also not discriminatory based on recent Commission determinations about line extension allowances in other cases.[10]

AWEC and ADS are not supportive of the Rule 13 changes as filed. AWEC stated in multiple rounds of comments that the changes were discriminatory because large, distribution voltage customers would be double charged by not receiving a line extension allowance while still being allocated distribution system costs in rates. AWEC does not believe adjusting the LRIC would accurately address this issue because cost allocation models often deviate from actual rates and the change adds complexity to the tariff.[11] Again, Staff notes that the LRIC is reevaluated each time a rate case is filed

[7] Response to OPUC Information Request 18.
[8] Response to OPUC Information Request 17.
[9] UE 424 / Advice Filing No. 23-016, Comments of the Oregon Citizen's Utility Board, at 3, (November 13, 2023).
[10] UE 424 / Advice Filing No. 23-016, Comments of the Oregon Citizen's Utility Board, 5-6, (November 13, 2023).
[11] UE 424 / Advice Filing No. 23-016, The Alliance of Western Energy Consumers' Comments, at 3, (November 13, 2023).

and would happen regardless of the Commission's decision in this docket. AWEC also argues that further investigation should take place before a Commission decision so that PacifiCorp can provide additional proposals that take parties' alternatives into account.

ADS filed initial comments claiming PacifiCorp had not met its statutory requirement to provide a detailed description with support for the filing, and that the Rule 13 changes should not be approved without additional explanation.[12] However, throughout Advice Letter No. 23-016 and PacifiCorp's reply comments in Docket No. UE 424, the Company provides a statement indicating the change in rule, an evaluation of the type, size and scale of customers impacted, and an explanation for the changes.

AWEC and ADS also proposed certain alternatives to PacifiCorp's filing:

- **Monthly Bill Credit.** AWEC and ADS supported a bill credit in lieu of an upfront extension allowance. This would allow the customer to receive the same level of compensation for a line allowance as before but would encourage the customer to remain on the utility's system over time in order to receive the credit. PacifiCorp responded that this method is still not preferable because it assumes that distribution voltage rates adequately recover the cost of service of very large customers. As Staff stated earlier, there is concern that providing this scale of line extension allowance, even as a monthly bill credit, is not mitigated by the current CMB structure. Additionally, if a customer stops taking service from PacifiCorp entirely, there is no guarantee that this size of infrastructure will be used by another customer. Therefore, the equipment would not be considered used or useful, but the departing customer would have been compensated as such.
- **Minimum Load Agreements.** AWEC suggested that having large customers enter into a contract to provide a level of minimum load or face financial penalties could ensure that the line extension allowances are recoverable. PacifiCorp noted this also relies on assuming that the CMB calculation adequately recovers enough revenue through rates for large customers. It also is problematic if the customer stops taking PacifiCorp service entirely.
- **Require all customers over 25,000 kW to take transmission voltage.** AWEC proposed that PacifiCorp could make all customers take transmission voltage and these customers would not be allocated substation or distribution costs in the LRIC. PacifiCorp ultimately decided against this because taking distribution voltage still allows customers the choice to forgo owning and operating

[12] UE 424 / Advice Filing No. 23-016, Amazon Data Services, Inc's First Round of Comments, at 2, (October 12, 2023).

substation and distribution infrastructure. Staff agrees that a customer's choice is important in this case, as they may not have specialized personnel to operate and maintain this type of infrastructure. However, it's also important to note that PacifiCorp benefits by allowing large customers to take distribution voltage service because the customer does not own the substation and distribution equipment. Since the Company owns and operates it, it can be put into rate base and earn a return on investment. Staff would also need to investigate the legal implications and pathways of this option before considering whether it is feasible or supportable.

- **Change Contract Minimum Billing Requirements.** ADS proposed that customers who do not receive line extensions should pay lower CMB charges. PacifiCorp states that large customers pay a smaller percentage of delivery costs than other customers, and customers who do not receive line extensions will already receive lower facilities charges due to the nature of the calculation. Staff believes that further examination of any of the alternatives proposed by ADS or AWEC would require some level of reevaluation of the CMB requirements and calculation. The CMB requirements for distribution voltage were likely not designed with this level of large load in mind.
- **Adjust Refund Requirements for Additional Connections.** ADS noted that if PacifiCorp's filing is approved, the Company consider additional refunds beyond the current limit if new customers connect to a line extension that was put in place due to a large customer. PacifiCorp explained that its refund rules apply to large customers simply for consistency in the tariff, but the Company was not opposed to changing those rules in the future. Staff notes that this change could be addressed in a general rate case if ADS chooses to do so, but it does not materially impact the effectiveness of PacifiCorp's Rule 13 change in the scope of this docket.

Staff greatly appreciates parties' engagement in the discussion of alternatives. Given the expedited nature of this issue, each option carries tradeoffs and a degree of imprecision. Staff does not find that these alternatives can capture the risks large customers pose to customers as cleanly or quickly as the Company's proposal. Some alternative options don't account for whether the customer leaves PacifiCorp's system entirely and reevaluating any one of these alternatives, including any kind of redesign of PacifiCorp's CMB requirements, would likely have to occur alongside revisions to the LRIC.

Staff Recommendation
Staff appreciates the extensive discussion and presentation of alternatives on an expedited basis. While each proposal has room for refinement, Staff believes that the Commission should focus on preventing the costs of extending service to very large

loads from falling on other customer before irreversible harm is done. Therefore, Staff proposes that the Commission affirm its decision to approve PacifiCorp's Rule 13 changes.

Staff notes this approach does have some trade-offs. First, this approach draws a blunt line at 25,000 kW for large customers. While the Company has shown reasonable evidence for this threshold, it could impact new customers that are very close to the 25,000-kW limit despite those customers posing significantly less costs than a customer who is hundreds of megawatts larger.

Second, this approach requires updating the LRIC to capture these large customers as a separate group and apply the correct allocation. This requires waiting for PacifiCorp's next general rate case to apply the change. However, the LRIC undergoes reevaluation in every rate case anyway, so there would not be additional process devoted to this option regardless of this recommendation.

Staff also notes that the Commission has opened Docket No. UE 430 to investigate new load line extension costs for Portland General Electric. If the Commission believes that the Company's proposal and alternatives requires further examination in that docket or a similar, parallel investigation, PacifiCorp's Rule 13 revision should remain in effect in the interim, subject to refund, to mitigate cost shifting and stranded assets as Staff has identified.

Staff cautions that handling PGE and PacifiCorp line extension issues in a single investigation could pose some challenges. Differences in the two utilities' service territories and customer loads may require different treatment. For example, PacifiCorp anticipates making this same line extension allowance change across all its territories in other states. If both utilities are treated the same after a unified investigation, it could result in disparate treatment between Oregon and other states in PacifiCorp's service territory. Because transmission voltage facilities are allocated across the Company's entire system as part of its multi-state protocol, consistent treatment across PacifiCorp's jurisdictions may be beneficial and could avoid cost shifting between states.

A longer investigation would provide the opportunity to delve into more detail about the alternatives posed by AWEC and ADS. However, Staff believes its primary recommendation ensures full risk mitigation and is implementable now, versus waiting to determine a policy at the conclusion of a long-term investigation. Staff presents these two approaches to provide the Commission with an opportunity to handle the issue either way, which Staff will support. However, it's important to note that if the Rule 13 changes continue to be subject to refund over the course of an investigation, it will become increasingly convoluted to fairly issue refunds should an alternative policy be implemented and the customers in question begin to electrify.

Conclusion

Staff believes that the Commission should affirm its approval of PacifiCorp's Rule 13, line extension allowance changes, and direct PacifiCorp to update the marginal cost study in its next general rate case so that customer's above 25,000 kW are not overallocated substation or distribution costs. Given the unique costs and risk that these large customers pose, this treatment is not unduly discriminatory and necessary to protect other customers from extraordinary cost shifting and stranded assets.

Should the Commission determine a longer-term investigation is necessary to address these issues, Staff recommends that PacifiCorp's Rule 13 changes remain in place, subject to refund, until the conclusion of that investigation.

PROPOSED COMMISSION MOTION:

Affirm approval of PacifiCorp's advice filing to modify its Oregon Rule 13, find that this PacifiCorp's Oregon Rule 13 is no longer subject to investigation and refund under ORS 757.215(4), and direct PacifiCorp to change the long-run incremental cost study in its next general rate case to ensure that distribution voltage customers larger than 25,000 kilowatts are not overallocated distribution and substation costs.

UE 424