ORDER NO. 24-192

ENTERED Jun 12 2024

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 432

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY, Advice No. 24-01, Schedule 123 Decoupling Adjustment.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on June 11, 2024, 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:

Alison Lackey
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. RA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 11, 2024

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **July 1, 2024**

DATE: May 31, 2024

TO: Public Utility Commission

FROM: Bret Stevens

THROUGH: Bryan Conway and Russell Beitzel **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket UE 432; Advice No. 24-01)
Schedule 123 Decoupling Adjustment

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should permanently suspend Portland General Electric's (PGE or Company) filed tariffs, Schedule 123, which would implement its proposed decoupling mechanism.

DISCUSSION:

Issue

Whether the Commission should suspend or allow to go into effect tariffs that have an effective date of July 1, 2024, implementing PGE's proposed decoupling mechanism.

Applicable Law

Under ORS 757.205(1):

Every public utility shall file with the Public Utility Commission, within a time to be fixed by the commission, schedules, which shall be open to public inspection, showing all rates, tolls, and charges which it has established, and which are in force at the time for any service performed by it within the state, or for any service in connection therewith or performed by any public utility controlled or operated by it. The Commission may approve tariff changes if they are deemed fair, just, and reasonable. ORS 757.210.

Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-022-0025.

OAR 860-022-0025(2) specifically requires that each energy utility changing existing tariffs or schedules must include in its filing a statement plainly indicating the increase, decrease, or other change made with the filing, the number of customers affected by the proposed change and the resulting change in annual revenue; and the reasons or grounds relied upon in support of the proposed change.

Filings that propose any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the change. ORS 757.220; OAR 860-022-0015. Tariff filings to be effective on less than 30 days following notice of the change may be authorized with a waiver of less than statutory notice pursuant to ORS 757.220 and OAR 860-022-0020.

OAR 860-022-0030(1) further requires that for tariff or schedule filings proposing increased rates, the utility must for each separate schedule:

- Identify the total number of customers affected;
- Identify the total annual revenue derived under the existing schedule and the amount of estimated revenue which will be derived from applying the proposed schedule;
- Provide the average monthly use and resulting bills under both the existing rates and the proposed rates that will fairly represent the application of the proposed tariff or schedules; and
- Outline the reasons or grounds relied upon in support of the proposed increase.

Analysis

Background
PGE submitted its proposed decoupling tariff on January 26, 2024. The filing was submitted to comply with Condition 9 in the Sixth Partial Stipulation of UE 416, adopted by the Commission in Order 23-386, issued October 30, 2023. On March 29, 2024, PGE extended the effective date of the tariff filing to July 1, 2024 and added a Special Condition to the proposed tariff that customers enrolled in the Income Qualified Bill Discount Program will be excluded from the decoupling charge if the mechanism results in an under collection. Even though the tariff filing was to meet a stipulated condition that the Commission adopted, Staff is not treating this as a compliance filing, but rather as an "ordinary" tariff filing.

Docket No. UE 416 was PGE's most recently concluded general rate case filing (as opposed to UE 435, PGE's current general rate case filing). Condition 9 in that stipulation states the following:

a. Parties agree that PGE will file a tariff for decoupling no later than 90 days after the Commission order in this GRC.
b. The tariff will include a three percent soft cap on residential and small non-residential customers.
c. The decoupling tariff will sunset after December 31, 2025.
d. Parties will be free to support or oppose the tariff when it is filed.

In this filing, PGE proposes a Sales Normalization Adjustment (SNA) decoupling tariff applicable to the residential and small-commercial Schedules 7, 32, and 38 that compares actual weather-adjusted distribution, transmission, and fixed generation revenues that are collected on a volumetric basis with those that would be collected with a fixed per-customer charge. The difference would accumulate in a balancing account and be refunded or collected over a future period.

PGE notes that the Schedule 123 tariff in its filing does not differ materially from the sample tariff that was provided in PGE's Exhibit 1306 in UE 416. The only differences are updates to the fixed charges and prices for additional schedules due to closing out the previously approved, now expired, decoupling mechanism (accruals from partial year 2022), and a sunset date.

The decoupling mechanism proposed here is similar to PGE's previous decoupling mechanism, but with a few key differences that will be discussed later in detail. PGE's previous decoupling mechanism was dissolved via stipulation in UE 394. However, the Natural Resources Defense Council (NRDC) and NW Energy Coalition (NWEC) objected to this provision the stipulation. In Order No. 22-129 the Commission ordered PGE to more fully justify why the Commission should not implement a decoupling mechanism in its opening testimony of its next rate case.

In Docket No. UE 416, PGE's subsequent general rate case, Staff did not support PGE's proposed decoupling mechanism, and Staff's position has not changed.[1] As noted in PGE's initial filing, this tariff filing is essentially the same as that proposed in UE 416. The remainder of this Staff report outlines the risks to residential and small commercial customers under the proposed SNA mechanism and explains why the benefits of decoupling are not likely to outweigh these risks.

[1] See Docket No. UE 416, Staff/2000, Stevens/58-63 and Staff/3300, Stevens/40-48.

Decoupling Risks
Decoupling mechanisms have been used for many years as a means to break the link between a utility sales levels, revenues, and potentially profits. These mechanisms ensure that a utility will recover a certain revenue per customer in a given year. This shields the utility from revenue deficits (and windfalls) that are caused by unexpected changes in consumption patterns. Advocates argue that decoupling mechanisms can also be used to remove barriers for utility acquisition of energy efficiency and mitigate the revenue impacts of incorrectly forecasting load. The Commission has adopted decoupling mechanisms for both PGE and PacifiCorp; although both have lapsed and are no longer in effect. Decoupling mechanisms for the natural gas utilities remain in place.

While there are circumstances in which decoupling can provide a net benefit to customers, such as capturing revenues associated with electrification, or strong economic growth, Staff is concerned that adopting the proposed mechanism will result in undue shifting of the Company's forecasting and revenue undercollection risk to PGE customers without adequate protections. Given the rate pressure facing PGE's customers, Staff does not think it is worthwhile to adopt a mechanism that adds to price volatility and raises rates when economic conditions are below forecasted.

The PGE-proposed decoupling mechanism applies solely to residential and small commercial customer classes. Table 1 below shows actual load growth and projected load growth through 2025.[2]

Table 1

Change in GWh Delivery from Preceding Year: 2020-2025

Voltage Service Class	2020	2021	2022	2023	2024 (E)	2025 (E)
Residential	4.9%	1.4%	-0.9%	-0.5%	0.6%	1.0%
Commercial	-6.8%	3.5%	0.2%	-0.2%	0.0%	-0.1%
Industrial	6.5%	8.3%	10.3%	7.1%	6.8%	9.2%
Total	0.8%	3.8%	2.4%	1.8%	2.2%	3.2%

This table shows that residential and small commercial customer loads are not forecasted to change materially for 2025 and have been relatively flat since 2021. However, PGE is forecasting substantial growth in industrial load for 2025. If the Commission wanted to address incentives for PGE to sell energy, it would appear that such a mechanism would need to be targeted at the industrial class of customers. Absent that, adoption of a decoupling mechanism would not meaningfully affect the

[2] See Docket No. UE 435, PGE/700, Riter-Greene/3.

trajectory of kWh sales growth. The decoupling mechanism as proposed in this docket would do little to curb PGE's overall sales.

Staff further argues that decoupling mechanisms effectively act as a direct pass-through of a mix of fixed-utility costs. Paired with the AUT and PCAM, these means that all fuel cost and a mix of fixed-cost recovery would be guaranteed unless fuel costs fall within the PCAM deadband. This eliminates a substantive amount of revenue-related economic risk to utility shareholders for the applicable classes of customers. Staff does not agree that the vast majority of revenue economic risk of operating an electric utility should be borne by retail customers.

Lastly, the decoupling target is made up of the current fixed costs of assets providing service to customers. When a new customer is added, the Company is allowed to recover through the decoupling per customer target, the per customer fixed costs of these facilities. In fact, a different set of resources, transmission and distribution costs will be incurred to provide service to these customers. The incentive the utility has is to add smaller-use customers and provide resources at a lower or different fixed cost. An example is using purchased power to supply power for additional customers versus Company-owned plant. It is unclear how the Company would act under these incentives and these incentives are not aligned with least-cost principles.

Decoupling Benefits
Decoupling mechanisms are frequently used to encourage utilities to promote energy conservation by breaking the direct relationship between the volume of energy sold and the amount of revenue the utility can collect. However, the use of a decoupling mechanism to encourage utility investment in energy efficiency is not as relevant for PGE in the current regulatory environment. First, PGE is required by statute to plan for and pursue all cost-effective energy efficiency and to do so before acquiring new generating resources.[3] Second, the PUC has worked for decades overseeing the PGE and Energy Trust of Oregon's joint efforts to plan, deploy, and monitor the effectiveness of large-scale energy efficiency acquisition. Finally, the combination of deep decarbonization targets and consideration of health and other community benefits required by Oregon House Bill 2021 will continue to drive the Company's efforts in the energy conservation space.

Decoupling can also offer some economic protections for customers. For example, a decoupling mechanism can prevent windfall gains from unexpected increases in throughput sales if applied to all classes of customers. However, this feature may also levy large increases in rates if consumption unexpectedly drops and PGE's proposed soft cap would potentially lock in these higher rates for multiple years. Specifically, like

[3] ORS 757.054(3).

in UE 394, again in UE 416, and here in this current filing, the Company proposes to allow for carry-over balances in decoupling, effectively protracting the return of overcollections and allowing the full return of undercollections. In the previously approved Schedule 123, surcharges were subject to a two-percent limiter that was hard capped in how much the Company could recover from customers on behalf of the SNA. Credits, on the other hand, were not similarly capped and would be returned in the second calendar year following the collection year. The Company has argued that more symmetrical treatment is needed between the surcharges and credits as it otherwise puts disproportionate financial risk on the utility. However, Staff's position, as described in UE 394, remains that a decoupling mechanism without a limiter on collections represents a large shift in normal business risk from the Company to the customer resulting from, for example, unexpected changes to exogenous conditions, such as an economic recession.

This duality can be seen most explicitly in the case of the COVID-19 pandemic. During the COVID-19 pandemic, residential consumption rose sharply while commercial consumption fell. As a result, residential customers were credited back roughly $17 million while Schedule 32 and Schedule 83 customers were to be charged an additional $10 million and $7.5 million respectively. The entirety of the $17 million was credited back to residential customers in 2022 while the surcharge to Schedule 32 and Schedule 83 customers was limited only to $4 million and $6 million respectively due to the asymmetric two percent "hard cap" provision of PGE's previous decoupling mechanism. Under PGE's proposed mechanism, Schedule 83 would have been charged the entirety of the $7.5 million in 2022 and Schedule 32 customers would have been subject to a $6 million surcharge in 2022 with the balance being deferred, with interest, into 2023. Staff has considered the feasibility of supporting a symmetrical cap treatment *without* carry over balances. However, Staff concluded it would not support authorizing PGE to retain overcollections from customers, regardless of how the account may adjust in subsequent years. Staff believes customers should not be penalized in rates as a result of variance from a revenue forecast generated by the Company, particularly given the likelihood that lower than expected usage may be the result customers engaging with energy efficiency, slowed electrification, or economic downturns.

It is Staff's position that on balance, the risks of decoupling outweigh the potential benefits and the potential benefits are less relevant in the current regulatory landscape than they may have been when PGE's SNA was first adopted. As such, Staff argues that, on net, decoupling does more harm than good to consumers.

Energy Justice Considerations
Staff's analysis of the decoupling proposal has included some consideration for the potential disproportionate impacts on environmental justice communities within PGE's service territory. Staff notes that absent the availability and granularity of data needed to comprehensively assess how decoupling impacts discrete customer segments and communities, it is unable to conclusively state whether the decoupling mechanism, as proposed by the Company, would disproportionately burden environmental communities. However, in general, Staff raises the following concerns on behalf of energy justice in its recommendation to permanently suspend PGE's Schedule 123:

- Energy Efficiency and Weatherization: Staff notes that decoupling is focused on sending signals to utilities, but for individual consumers participating in conservation, decoupling could diminish some of the benefits of participation. Energy Efficiency and weatherization are critical in combating energy burden, and decoupling has the potential to mitigate some of those direct benefits. Staff also recognizes that energy burdened customers may benefit from decoupling if load exceeds forecasted levels. In weighing these competing risks, Staff favors the stability of reducing bills through conservation over the unpredictability of crediting customers due to higher than expected residential load growth.
- Residential Energy Burden: In general, environmental justice communities face disproportionate energy burdens across the state and country. Further, rate proposals that increase monthly bill, shift utility risk onto customers, increase bill volatility, and/or increase bill complexity tend to have more significant negative impacts on these same groups as a result of disparities in financial stability. To the extent that the proposed decoupling mechanism has the potential to do all these things, Staff remains concerned that customer harms associated with Schedule 123 may be disproportionately borne by the frontline communities least equipped to manage the financial risks. Given the lack of evidence needed to say otherwise, Staff is unable to support decoupling through an equity lens.

Views of Other Parties
Other parties have both written testimony and met with Staff in workshops to discuss this issue. PGE, NWEC, and the NRDC support the filing. In its UE 416 testimony, the Oregon Citizens Utility Board (CUB), states that CUB is not opposed to instituting a new decoupling mechanism, and that there may be benefits of a decoupling mechanism in the face of the unexpected pace of electrification.[4] As noted earlier, from PGE's load forecast, in Staff's view, there does not seem to be much unexpected load growth in the residential class due to electrification, as residential sales are forecasted to be effectively flat.

[4] See Docket No. UE 416, CUB/400, Jenks 35.

In joint UE 416 testimony, NWEC and the NRDC offered substantial testimony in favor of decoupling. Below is a brief summary of their testimony positions.

- They argue that decoupling improves energy efficiency outcomes.[5]
- They argue that without decoupling PGE will have an incentive to promote, or at least not oppose, inefficient electric vehicles.[6]
- They argue that the ETO running PGE's energy efficiency programs and legislative mandates are not sufficient barriers for mitigating PGE's incentives around energy efficiency.[7]
- They argue that decoupling will not slow the pace of electrifying the transportation sector.[8]
- Lastly, they argue that a decoupling mechanism does not inappropriately shield PGE investors from general economic risk.[9]

Staff largely disagrees with NWEC and NRDC on these points as discussed in Staff's memo above and in Staff testimony.[10]

Conclusion

Staff concludes that PGE's proposed decoupling tariff will do little to encourage greater conservation acquisition and not address the customer classes where kWh sales growth is robust. Staff's concerns in UE 416 remain and therefore, given that the mechanism does not address industrial loads, Staff does not support PGE's filing.

This tariff has no immediate rate impact but could affect rates in the future.

The Company, CUB, and NWEC has reviewed this memo and did not identify any factual errors.

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[5] See Docket No. UE 416 NRDC-NWEC/100, Cavanagh-McCloy/8.
[6] See Docket No. UE 416 NRDC-NWEC/200, Cavanagh-McCloy/9-10.
[7] See Docket No. UE 416, NRDC-NWEC/100, Cavanagh-McCloy/18, and NRDC-NWEC/200, Cavanagh-McCloy/6.
[8] UE 416, NRDC-NWEC/100, Cavanagh-McCloy/18-19.
[9] See Docket No. UE 416 NRDC-NWEC/200, Cavanagh-McCloy/5.
[10] See Docket No. UE 416 Staff/2000, Stevens/58-63 and Staff/3300, Stevens/39-48.

PROPOSED COMMISSION MOTION:

Permanently suspend Portland General Electric's proposed Schedule 123, PGE's proposed decoupling mechanism.

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