ORDER NO. 24-362

ENTERED Oct 29 2024

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 443

In the Matter of

PORTLAND GENERAL ELECTRIC COMPANY,

Updates Schedule 300, Line Extension Allowance, Revising Residential Line Extension Allowance.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on October 29, 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. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 29, 2024

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __November 1, 2024__

DATE: October 21, 2024

TO: Public Utility Commission

FROM: Madison Bolton

THROUGH: Caroline Moore, Scott Gibbens, and Curtis Dlouhy **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. ADV 1630/Advice No. 24-13)
Updates Schedule 300 Line Extension Allowance, revising Residential Line Extension Allowance.

STAFF RECOMMENDATION:

Approve Portland General Electric's (PGE or Company) Advice No. 24-13, which updates Schedule 300 Line Extension Allowance, to revise the residential line extension allowance (LEA) policy, effective with service rendered on and after November 1, 2024.

Direct PGE to initiate a review, along with Staff and other interested parties, of the residential LEAs using updated PGE energy use data for newly constructed residential homes, no later than June 30,2029.

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve PGE's Advice No. 24-13, updating Schedule 300 Line Extension Allowance.

Whether PGE should be directed to initiate a review, along with Staff and other interested parties, of the residential LEAs using updated PGE energy use data for newly constructed residential homes, no later than June 30, 2029.

Applicable Rule or Law

ORS 757.205 requires public utilities to file schedules showing all rates, tolls, and charges for service that have been established and are in force at the time. Pursuant to ORS 757.210, the Commission may approve tariff changes if they are deemed to be fair, just, and reasonable.

OAR 860-022-0025 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.

OAR 860-021-0045(1) states that an electric company shall, with the exceptions provided under its extension rules, furnish service connections to the customer's service entrance.

In executing its general powers under ORS 756.040, the Commission "is vested with power and jurisdiction to supervise and regulate every public utility and telecommunications utility in this state, and to do all things necessary and convenient in the exercise of such power and jurisdiction."

Under ORS 756.090, a utility must keep and maintain records as required by the Commission. The Commission may require a utility to furnish information to carry into effect the provisions of ORS chapters 756, 757, 758 and 759, per ORS 756.105.

Analysis

Background
PGE last updated its residential LEAs in Advice No. 20-14, which also proposed splitting residential LEAs into two categories: Residential Service All Electric (All-Electric) and Residential Service Primary Other (Primary Other). Staff and stakeholders ultimately supported the LEA update, but Staff recommended that the Company use its own new construction data instead of third-party industry estimates in the future. The Commission approved PGE's update in Order No. 20-483 on December 23, 2020, subject to a condition that the Company must initiate a review of residential LEAs using PGE-supplied data for new homes no later than June 30, 2024.

On June 28, 2024, PGE filed Advice No. 24-13 pursuant to Order No. 20-483, updating the residential LEA amounts in each category using the Company's own data.

Consistent with the previous LEA update, the All-Electric category is available to dwellings where the primary heating source is provided by an active electric HVAC-system. The Primary Other category is available to dwellings where the active primary service is provided by an HVAC system using combustion furnaces fueled by natural gas, propane, oil, and biodiesel, other passive HVAC-system solutions, and inefficient electric resistance heating systems.

In PGE's application, the requested All Electric LEA is $3,520 per dwelling/unit and the Primary Other LEA is $2,730 per dwelling/unit.

Line Extension Allowance Principles
An energy utility is assigned an exclusive service territory. Within the service territory, the utility is obligated to serve all customers. However, this obligation does not exempt the new customer from bearing all of the costs incurred to connect the customer to the system. A line extension allowance is the amount of money the customer is credited against the PGE-estimated cost of their line extension.

LEAs are a common practice in the utility industry. Most electric utilities have a line extension policy that outlines how costs are allocated and incurred to extend service to new customers. Generally, the utility provides a credit against the cost for providing services up to the customer property location.

The amount of the credit is the amount not collected from the customer. This means that the credit is essentially the amount that is added to the utility's rate base and included in overall revenue requirements. Given that the new customer will contribute revenues to the system which help pay for common costs, the concept behind an LEA is that these additional revenues help spread costs over a larger customer base, benefiting everyone.

Staff believes that a line extension allowance should hold other customers harmless. Staff reviewed this filing to ensure that the proposed line extension allowance does not result in higher residential rates. To verify this, the expected incremental revenues from the new customers are compared to the amount of the line extension allowance. Another consideration is to treat customers equitably. Since all residential customers have likely been eligible for line extensions, there should be a consideration of equity among customers for the line extension allowances they received.

Staff's Analysis & Review
Staff met with the Company to verify that PGE used appropriate load estimates, new construction data, and revenue/cost data. Staff also conducted a breakeven analysis to

determine whether using four times the annual basic and distribution revenues is a reasonable multiplier.

Load Data
PGE splits the residential LEAs into All Electric and Primary Other categories based on the idea that a new all-electric customer is likely to have higher annual kWh usage than a new customer who uses another fuel source. Additionally, an all-electric customer uses a higher percentage of the Company's distribution system and pays a higher portion of distribution costs.

The proposed Primary Other LEA assumes an annual usage of 8,633 kWh, and the proposed All Electric LEA assumes annual usage of 11,117 kWh. The LEAs are calculated using PGE's new home construction usage data for residential service points from January 2021 through May 2024, which breaks down into eight categories:

- Electric Ceiling Heat
- Electric Furnace Heat
- Gas Forced Air Furnace Heat
- Gas Furnace Heat
- Heat Pump
- Oil Furnace
- Other Electric Heat Type
- Other Non-Electric Heat Type

Staff met with the Company to discuss the data and other assumptions in the LEA analysis. While PGE's categorical data is more granular than its previous analysis in Advice No. 20-14, PGE still holds concerns about the validity of the data in the Other Electric Heat Type and Other Non-Electric Heat Type categories. PGE claims that the lack of specificity in those categories makes it difficult to interpret, so the Company excluded those data points from the LEA analysis.

Given PGE's concerns with the data, Staff attempted to verify the assumed annual consumption values in the filing by comparing to publicly available new home data from Energy Trust of Oregon (Energy Trust).[1] Staff found that the projected average of homes with electric HVAC in the Energy Trust data consumed 2,262 kilowatt-hours (kWh) more than homes that fall in the Primary Other category. In PGE's analysis, the difference between the 11,117 kWh All-Electric and 8,633 kWh Primary Other consumption is 2,484 kWh. Staff finds that the delta between these two home types is reasonably close when comparing the Energy Trust data and PGE's analysis.

[1] EPS New Construction 2015-2022 Homes Data Set - Energy Trust Insider.

While PGE's energy usage estimates appear accurate, Staff notes that the All-Electric LEA only considers heating source. It does not preclude a customer from also receiving a natural gas LEA because it does not require other end uses in the home to be electric. If the home is equipped with other gas appliances, it may be eligible to receive a LEA from a natural gas utility as well. While the All-Electric LEA can incentivize energy efficient and lower greenhouse gas emitting technologies in new builds, it may be inappropriate for customers to receive a gas LEA in addition to the electric LEA subsidy if the customer provides less consumption and less marginal revenue than expected. Given that natural gas LEA reform has recently been debated before the Commission for multiple Oregon gas utilities, Staff believes that reviewing PGE's residential LEAs again in the future is beneficial. Reviewing PGE's residential LEAs on a similar timeframe as previously directed in Order No. 20-438 allows Staff and stakeholders to monitor this interaction between electric and gas LEAs, while also providing PGE an opportunity to continue to refine the accuracy of the data used in the LEA analysis.

Cost Data

As mentioned above, PGE's proposal will set the residential LEA to four times the expected annual distribution and basic charge revenues.

To determine whether PGE's proposal to use a multiplier of four times the annual distribution and basic charge revenues is justifiable, it is important to review the underlying cost data and any assumptions related to these estimated costs. Staff performed a breakeven analysis using marginal cost data specific to residential customers from its most recent rate case, UE 416. Staff analysis attempts to find the breakeven point at which the revenues generated by customers do not exceed the cost of the investment. PGE performed a similar analysis as part of its previous residential LEA update in Docket No. ADV 1130/Advice No. 20-14.

The breakeven analysis demonstrated that the maximum supportable multiplier is approximately 8.24 as shown in the following table.

Calculation of Proposed Residential Line Extension Allowance				
Line No	**Description**	**Source**	**Units**	**Value**
1	Revenue from Residential Schedule 7	UE 416 Rev Prop	($000)	$1,660,812
2	Marginal Cost to Serve Residential Load from UE 416	UE 416	($/MWh)	$170.36
3	Energy from Residential Sch 7	UE 416 Rev Prop	MWh	7,839,840

4	Marginal Cost to Serve Residential Load from UE 416	Line 2 * Line 3/1000	($000)	$1,335,613
5	Net Margin from Residential Sch 7	Line 1 -Line 4	($000)	$325,199
6	Annualization Factor	Staff Estimate		7.00%
7	Investment Supported by Revenue	Line 5/ Line 6	($000)	$4,645,698
8	Basic and Distribution Revenue from Schedule 7	Line 3 * Distribution and Basic Charge Marginal Revenue	($000)	$563,685
9	Supportable Residential Line Extension Allowance	Line 7/ Line 8	Multiplier	8.241663957

Staff finds that in this instance, the multiplier of four is justified and can be reasonably expected to not result in an increase in residential rates.

Staff notes that individual line extension projects have incremental costs and revenues that will vary, but the proposed All Electric and Other LEAs are based on aggregate data which remain constant and do not vary by project.[2] Therefore, by proposing an LEA of four years of expected revenues, PGE creates a buffer between the proposed allowances and the breakeven point, which reduces the risk that other customers will see a rate increase as a result of the proposed LEAs. This breakeven analysis is calculated similarly to PacifiCorp's Transportation Line Extension Allowance adopted in Docket No. ADV 1148, which also reserves a buffer between the maximum and chosen multipliers.

Conclusion

Based on Staff's analysis of PGE's filing, associated workpapers, and meetings with the Company, Staff finds that the Company's updates to Schedule 300 result in rates that are fair, just, and reasonable.

However, Staff believes monitoring whether there is over-subsidization for homes receiving both gas and electric LEA is an important emerging issue. Staff also recommends that the Company continues refining the underlying data in the LEA analysis to ensure appropriate consumption values are used. Because of these factors, Staff recommends that PGE provide a review of its residential LEAs in 2029.

[2] An important note is that while the All Electric and Other LEA remain constant for all projects, they represent a maximum, not a guarantee. For example, if the expected cost of a line extension is only $1200, the customer would receive a $1200 allowance, not the maximum LEA.

PROPOSED COMMISSION MOTION:

Approve PGE's Advice No. 24-13, which updates Schedule 300 Line Extension Allowance, to revise the residential LEA policy, effective with service rendered on and after November 1, 2024.

Direct PGE to initiate a review, along with Staff and other interested parties, of the residential LEAs using updated PGE energy use data for newly constructed residential homes, no later than June 30, 2029.