

ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 21, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2017

DATE: February 28, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *mpm*

THROUGH: E Jason Eisdorfer and Marc Hellman *A*

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1514(6)) Requests reauthorization to defer the incremental costs associated with Automated Demand Response.

STAFF RECOMMENDATION:

I recommend that Portland General Electric's (PGE or Company) application for reauthorization to defer, with interest, the incremental costs associated with the Automated Demand Response Pilot (ADR Pilot), be approved for the 12-month period beginning January 1, 2017.

DISCUSSION:

Issue

Whether the Commission should approve PGE's request for reauthorization to defer, with interest, the incremental costs associated with the Automated Demand Response Pilot, for later recovery in rates.

Applicable Rule or Law

PGE submitted its deferral application on December 15, 2016, pursuant to ORS 757.259 and OAR 860-027-0300. ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 are the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. Previous approval of this deferral was most recently granted by Order No. 16-111.

Analysis

Background

The deferral of incremental ADR costs and recovery through an automatic adjustment clause (Schedule 135) were initially authorized by Commission Order No. 11-182, as part of a two-year pilot program. The Commission has authorized PGE to defer the incremental ADR costs each year since 2011.

PGE seeks reauthorization to defer incremental costs associated with the ADR Program and the new Pilot timeline for the period January 1, 2017, through December 31, 2017.

First ADR Pilot Period

PGE selected a third-party provider based on a combination of good credit, bidding summer and winter events, better technology, and a stronger marketing plan. The provider began its program marketing on September 1, 2011, but failed to meet the initial capacity milestone of 5 MW for the first winter season. The provider then began to experience financial difficulties and failed to meet additional terms of its agreement for the ADR pilot. On April 30, 2012, PGE terminated its contract with the provider.

New Proposed ADR Pilot Period

As discussed in PGE's report submitted with the second ADR evaluation on April 28, 2016, the pilot in its current form has fallen short of its nomination goal of 25 MW, with 11 MW expected to be nominated for the winter of 2016-2017. Additionally, PGE's contract with EnerNOC, the program's third-party provider, expires at the end of this year. These two factors have led both PGE and EnerNOC to explore adjustments to the program that may lead to greater success. While PGE and EnerNOC have not decided on the exact changes to take place, they expect that changes will include expanding offerings to medium-sized customers, flexibility in nomination windows, and potentially reaching out to other vendors to supplement EnerNOC. Because the ADR pilot continues to be in transition, PGE proposes to continue its deferred accounting and not move it into power costs as a capacity resource until it stabilizes as a program.

Description of Amounts

Pursuant to ORS 757.259(2)(e), PGE seeks renewal of deferred accounting treatment for the incremental costs associated with the ADR pilot. The approval of the Application will also enable the continued use of an automatic adjustment clause rate schedule which will provide for recovery of the incremental costs associated with the ADR through tariff Schedule 135.

Reasons for Deferral

Pursuant to ORS 757.259(2)(e), PGE seeks to continue deferred accounting treatment for the incremental costs associated with the ADR (initially authorized by the Commission through Order No. 11-182 on June 1, 2011). The granting of this reauthorization application will minimize the frequency of rate changes and match appropriately the costs borne by, and benefits received by, customers.

Proposed Accounting

PGE proposes to record the deferred costs in FERC account 182.3 (Regulatory Assets), with the offsetting credit recorded to FERC account 131 (Cash).

Estimate of Amounts

PGE estimates the amounts to be deferred in 2017 to be approximately \$1.4 million.

Information Related to Future Amortization

- Earnings review – An earnings review does not apply to an automatic adjustment clause, pursuant to ORS 757.259(5). If the pilot program is deemed successful, PGE proposes to have costs of the ADR program flow through PGE's Annual Power Cost Update (Schedule 125) and Power Cost Adjustment Mechanism (PCAM) (Schedule 126) for the year 2018, and be subject to the earnings review contained within the PCAM.
- Prudence Review – A prudence review should include a verification that deferred amounts are incremental, and verification of the accounting methodology used to determine the final amortization balance.
- Sharing – If the ADR is deemed successful, then the proposal is for subsequent costs to flow through PGE's Annual Power Cost Update (Schedule 125) and Power Cost Adjustment Mechanism (PCAM) (Schedule 126). The PCAM is subject to the dead bands and sharing percent's as specified by Commission Order Nos. 07-015 and 10-478.
- Rate Spread/Design – Per Commission Order No. 11-517, tariff Schedule 135 will allocate the costs of the ADR on the basis of an equal percent of forecast generation revenues.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) 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. Because PGE is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit.

Conclusion

The rationale for this deferral is still valid, and the Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300. For these reasons, Staff recommends PGE's application be approved.

PROPOSED COMMISSION MOTION:

Approve PGE's application for reauthorization to defer the incremental costs associated with the Automated Demand Response Pilot (ADR Pilot), for the 12-month period beginning January 1, 2017.