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October 19, 2018

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem OR 97301

Re: In the Matter of PORTLAND GENERAL ELECTRIC CO.
2018 Request for a General Rate Revision
Docket No. UE 335

Dear Filing Center:

Please find enclosed the Alliance of Western Energy Consumers' Reply Brief in the above-referenced docket.

Thank you for your assistance. If you have any questions, please do not hesitate to call.

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 335

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| In the Matter of |) | |
| |) | |
| PORTLAND GENERAL ELECTRIC |) | REPLY BRIEF OF THE ALLIANCE OF |
| COMPANY |) | WESTERN ENERGY CONSUMERS |
| |) | |
| Request for a General Rate Revision. |) | |
| _____ |) | |

I. INTRODUCTION

Pursuant to the Administrative Law Judge’s (“ALJ”) Prehearing Conference Memorandum, dated March 20, 2018, in the above-referenced docket, the Alliance of Western Energy Consumers (“AWEC”) submits this Reply Brief to the Oregon Public Utility Commission (“Commission”).

AWEC limits its argument in this Reply Brief to two remaining issues: (1) Portland General Electric Company’s (“PGE” or “Company”) request for a “major storm balancing account”; and (2) PGE’s request to include energy storage in the Renewable Resources Automatic Adjustment Clause (“RAC”). AWEC addresses its objections to the stipulation on direct access issues in a separate brief.

II. BACKGROUND

A. Major Storm Balancing Account

PGE currently recovers costs it incurs in responding to major storm events via two mechanisms. First, since 2011 it has an accrual mechanism that allows it to recover an amount in rates that is equivalent to the ten-year annual average of costs for major storm

events.^{1/} Thus, if major storm costs are high in a single year, that amount is reflected in the ten-year average and PGE's annual accrual is increased. Just this year, PGE's annual accrual increased from \$2.0 million per year to \$2.6 million.^{2/} Rates next year will reflect another increase of over \$1 million, to \$3.8 million per year.^{3/} If major storm costs are higher than the accrual, PGE absorbs the additional cost, but if these costs are lower than the accrual, PGE retains the benefit. Second, if major storm costs are significantly higher than anticipated, PGE may request to defer the costs for later inclusion in rates. PGE has pending just such a deferral for 2017 storm costs.^{4/} Well-established Commission precedent guides whether such a deferral ultimately is granted.^{5/} In the Third Partial Stipulation filed in this docket, the parties agreed that PGE's 2017 storm deferral would be addressed in UM 1817 and would not be resolved here.^{6/}

In its opening testimony in this docket, PGE argues that these mechanisms are insufficient and proposes to create a balancing account to track costs incurred in responding to major storm events (those qualifying as "Level III" storms).^{7/} When storm costs are higher than the amount PGE collects in rates, the balancing account will reflect a negative balance. When costs are lower, the excess amount PGE collects from customers will reduce this negative

^{1/} PGE/800 at 14:12-18.

^{2/} AWEC/200 at 50:7-8.

^{3/} PGE/801.

^{4/} Docket No. UM 1817.

^{5/} Re Commission Staff Request to Open an Investigation Related to Deferred Accounting, Docket No. UM 1147, Order No. 05-1070 (Oct. 5, 2005). Under its two-pronged evaluation, the Commission first examines whether the deferral meets the statutory requirements. If so, then the Commission determines whether it should exercise its discretion to grant a deferral. The discretionary part of the evaluation is guided by whether the deferred costs are due to a "stochastic" or a "scenario" risk. Costs due to stochastic risks must be "substantial" to grant a deferral, while costs due to scenario risks must be "significant."

^{6/} Third Partial Stipulation ¶ 2(c).

^{7/} PGE/800 at 13-17.

balance. PGE does not identify when and whether a certain level of positive or negative balance in the account would trigger a refund or surcharge to customers.

B. Energy Storage in the RAC

Senate Bill 1547, passed by the 2016 Legislature, requires the Commission to “establish an automatic adjustment clause ... or another method that allows timely recovery of costs prudently incurred by an electric company to construct or otherwise acquire facilities that generate electricity from renewable energy sources ... and costs related to associated energy storage.”^{8/} The Commission has already established the RAC to allow for timely recovery of costs related to renewable energy sources and associated transmission.^{9/}

In its opening testimony, PGE proposed to modify the RAC to include energy storage, arguing that this was consistent with SB 1547.^{10/} Specifically, Schedule 122 as PGE initially proposed to revise it read: “This Schedule recovers the revenue requirements of qualifying Company-owned or contracted new renewable energy resource and energy storage projects”^{11/} The word “associated” in the statute was conspicuously absent from the revisions, but PGE made clear that this was deliberate. “PGE’s resources are system resources,” its witness testified. “Any energy storage facility on the system controlled by PGE provides integrating renewable energy resources as a primary system benefit.”^{12/} In other words, according to PGE all energy storage is by definition “associated” with renewable energy sources.

^{8/} ORS 469A.120(2)(a) (emphasis added).

^{9/} PGE Schedule 122.

^{10/} PGE/1300 at 33:6-14.

^{11/} PGE/1301.

^{12/} PGE/1300 at 33:12-14.

In response testimony, AWEC’s witness, Bradley Mullins, noted that PGE’s approach rendered the word “associated” in the statute a nullity and recommended that the Company explicitly include that word in its tariff revisions to the RAC.^{13/} Mr. Mullins also recommended that the Commission defer a decision on whether an energy storage project is “associated” with renewable energy to a different docket – either a docket in which PGE requests cost recovery of an energy storage project or in the ongoing RPS rulemaking (AR 610) – where a better record on this issue can be developed.^{14/}

In reply testimony, PGE agreed with AWEC’s recommendation that the word “associated” be included in the RAC.^{15/} It also requested, however, that the Commission make an explicit finding in this docket that “energy storage used to integrate renewables on a utility’s system qualifies as ‘associated energy storage.’”^{16/}

Finally, in surrebuttal testimony, PGE further clarified its position that it is not intending to request that the Commission prejudge whether a particular energy storage project is eligible for recovery under the RAC or not and agrees that this issue should be determined when it seeks to include a project in the RAC.^{17/} PGE does not, however, explain whether it continues to seek a ruling from the Commission that “energy storage used to integrate renewables on a utility’s system qualifies as ‘associated energy storage,’” nor does its opening brief address this issue.

^{13/} AWEC/200 at 52-53.

^{14/} Id. at 53.

^{15/} PGE/2400 at 11:11-12.

^{16/} Id. at 11:12-13.

^{17/} PGE/2900 at 13.

III. ARGUMENT

A. The Commission should reject PGE's request for a major storm balancing account.

PGE's testimony admits to the central problem with its request for a balancing account: it is a blatant attempt at single-issue ratemaking that shifts normal business risk from the Company to its customers. In response to CUB's observation that PGE can file for deferred accounting if it experiences abnormally high storm costs, PGE complains that there is no guarantee that "the deferral request will be approved or that PGE will receive recovery of those costs."^{18/} Precisely. That is the point. Recovery of deferred costs is contingent on a finding that such costs are at least "significant" and that PGE is not already recovering these costs by earning its authorized return.^{19/} If the Commission denies a request for deferred accounting, that is because it has made an affirmative finding either that the deferral does not meet the statutory requirements or that recovery of such costs outside of a general rate case, where all costs and revenues can be considered, is not in the public interest and would result in unfair and unreasonable rates. PGE's proposed balancing account is nothing more than an attempt to avoid this possibility and guarantee itself dollar-for-dollar recovery of major storm costs. Accordingly, if the Commission is to grant PGE's requested balancing account, it should reduce PGE's return on equity to account for this lower risk.

That PGE's request for a balancing account is an attempt to institute disfavored single-issue ratemaking without the protections a deferral provides is further clarified by its opening brief. There, the Company argues that any amount it spends on storm restoration costs

^{18/} PGE/2700 at 7:20-8:1.

^{19/} Order No. 05-1070 at 7; ORS 757.259(5).

that exceed the annual accrual will “not be recovered in prices.”^{20/} That is not true. Ratemaking does not look to whether utility rates reflect each individual cost and revenue in isolation. It identifies an overall revenue requirement that provides the utility with an *opportunity* to recover its costs and earn a fair and reasonable return.^{21/} PGE may have higher-than-average storm costs in one year, but it may also have increased revenues to balance out those costs. To the extent PGE is earning its authorized return, it is recovering its costs overall, including major storm costs, and no additional recovery is warranted. And even if it is not earning its return, PGE can hardly complain that the rates it collects from its customers do not provide it with a fair opportunity to do so. The Company has filed rate cases in five of the last six years, each of which have resolved all revenue requirement issues through stipulations, meaning that PGE has affirmatively agreed that the rates established through these stipulations are sufficient.^{22/}

Moreover, PGE provides no evidence that circumstances are changing that warrant modifying its storm accrual mechanism to include a balancing account. PGE’s opening brief states that “the occurrence of major storms varies from year to year, the storms are beyond PGE’s control, and it is critical to get service to customers restored when their service is disrupted by storm damage.”^{23/} That is true, and it has always been true. This circumstance alone does not justify a change in the storm accrual mechanism. The Company does allege that “more frequent and severe storms [will] impact our service territory in the future,”^{24/} but the only evidence it offers for this conclusion is that it has incurred major storm costs that exceed its

^{20/} PGE Opening Brief at 4.

^{21/} Federal Power Comm’n v. Hope Natural Gas Co., 320 U.S. 591, 602 (1944).

^{22/} See, e.g., Docket No. UE 319, Order No. 17-511, Appen. A at 11 ¶ 32 (Dec. 18, 2017).

^{23/} PGE Opening Brief at 4.

^{24/} PGE/800 at 16:20-21.

annual accrual amount in each of the last four years.^{25/} This four-year period, however, was immediately preceded by another four-year period in which it incurred no major storm costs at all.^{26/} There is simply no reason to believe that PGE is facing a new and unacceptable risk under its current and long-standing cost recovery mechanism. This is particularly true when one considers that, as noted above, PGE always has the ability to file to defer extraordinary storm costs for later recovery from customers.

B. The Commission should reject PGE’s request for a finding that energy storage used to integrate renewables qualifies as associated energy storage eligible for recovery under the RAC.

1. The Commission should not find in this case that energy storage used to integrate renewables is “associated” with renewable energy sources.

PGE has moderated its requests with respect to energy storage over the course of this case. It now agrees with AWEC that it should modify the RAC to only recover energy storage that is “associated” with renewable energy sources. It also agrees that the Commission should not predetermine whether a particular storage project is recoverable through the RAC, a position AWEC also holds. Nevertheless, while PGE did not specifically address in its surrebuttal testimony or opening brief whether it continues to seek a ruling from the Commission that “energy storage used to integrate renewables on a utility’s system qualifies as ‘associated energy storage,’” AWEC assumes for purposes of this brief that PGE maintains this request.

AWEC opposes this request for the simple reason that it would provide no benefit. Since there is no energy storage project at issue in this case, the only reason to provide such a ruling now would be to clarify which energy storage projects are eligible for cost recovery

^{25/} PGE/2700 at 7:11-13.

^{26/} PGE/801 at 2.

through the RAC and which are not so as to avoid future disputes and litigation. PGE's requested ruling, however, would not achieve this objective. Instead, it would simply shift debate from the meaning of one word to another. Rather than arguing about whether an energy storage project is "associated" with renewable energy sources, parties will argue about whether an energy storage project is used to "integrate renewables." The Commission already knows from PGE's opening testimony that the Company believes that all energy storage on its system is, by definition, used to "integrate renewables."^{27/} AWEC fundamentally disagrees with this, particularly when it is clear that PGE believes that every resource on its system "integrates renewables."^{28/} It is inevitable that PGE and AWEC (as well as other parties) will have this debate in a future docket, and PGE's requested ruling will not help to resolve it.

Moreover, AWEC disagrees that an energy storage project that is used to "integrate renewables" is necessarily "associated" with renewable energy sources. An energy storage project may provide some integration benefit, but its primary purpose could be to provide reliability to customers on a particular transmission or distribution line. Whether such a project is "associated" with renewable energy is fairly debatable and should be determined on a fact-specific basis. Ultimately, that is what SB 1547's changes to the cost recovery section of the RPS law will require of the Commission – a case-by-case determination of whether a particular energy storage project is "associated" with renewable energy sources. PGE's requested ruling will not change that.

^{27/} PGE/1300 at 33:12-14.

^{28/} AWEC/205 at 10-11.

2. It is more efficient to allow recovery of associated energy storage through the RAC.

In its surrebuttal testimony, PGE states in response to CUB's testimony that it would consider creating a new automatic adjustment clause to recover the costs of associated energy storage rather than recovering these costs through the RAC. While AWEC does not have a strong position on this issue, requiring the creation of another tariff will result in unnecessary inefficiencies.

CUB's stated concern is that recovery of energy storage costs through the RAC could result in an inaccurate calculation of the incremental costs to comply with the RPS by including energy storage costs in that calculation.^{29/} AWEC agrees with CUB that energy storage costs are not part of the incremental cost calculation (as energy storage is not used for RPS compliance), but CUB's concern is misplaced. There is no connection between cost recovery through the RAC and the calculation of PGE's incremental cost of RPS compliance. PGE's incremental cost calculation is governed by Commission rules, and the mechanism by which PGE recovers associated energy storage costs (whether through the RAC or a new AAC) will not impact that calculation.

IV. CONCLUSION

For the foregoing reasons, AWEC respectfully requests that the Commission reject PGE's request for a balancing account for major storm costs. AWEC supports PGE's request to modify the RAC to include the phrase "associated energy storage," but opposes the Company's request for a Commission determination in this docket that energy storage used to integrate renewables is, by definition, "associated" with renewable energy. The Commission

^{29/} CUB/200 at 14:16-18.

should defer any decision on whether an energy storage project is eligible for recovery under the RAC to the docket in which PGE requests cost recovery of such a project

Dated this 19th day of October, 2018

Respectfully submitted,

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