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October 26, 2018

Via Electronic Filing

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street, Suite 100
P.O. Box 1088
Salem OR 97308-1088

Re: UE 335 – PORTLAND GENERAL ELECTRIC COMPANY Request for a General Rate Revision

Dear Filing Center:

Enclosed is the Final Brief of Portland General Electric Company Issues for filing in the above-referenced docket.

Thank you for your assistance.

Sincerely,

DOUGLAS C. TINGEY
Associate General Counsel

DCT:al

Enclosures

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 335

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY, Request for a General Rate Revision.	**FINAL BRIEF OF PORTLAND GENERAL ELECTRIC COMPANY**

Portland General Electric Company ("PGE") submits this final brief regarding the remaining contested issues, other than the direct access stipulation, in this general rate case.

I. BACKGROUND AND PROCEDURAL POSITION

Only four issues remain in this part of the docket. A contested stipulation regarding direct access issues is addressed separately. There have been five rounds of testimony on the remaining issues, and this is the third round of briefs. The parties, including PGE, have explained their positions and arguments in detail.

As stated in PGE's opening brief, after the adjustments agreed to in the stipulations in this docket, and the power cost and load forecast updates, the overall requested price increase is now less than one percent. There will be two additional power cost updates in November that are not expected to change the overall outcome significantly.

The remaining four issues to be decided by the Commission in this part of the docket are:

1. PGE's request to modify the existing Level III Storm accrual mechanism to allow negative as well as positive balances.
2. PGE's request to revise the normal weather assumption used in load forecasting by moving from a 15-year rolling average of historic temperatures to use of a trended weather assumption to better reflect changing weather conditions.
3. PGE's proposed changes to its existing decoupling mechanism. The current mechanism includes the Lost Revenue Recovery Adjustment ("LRRA"), and the Sales Normalization Adjustment ("SNA") which are each applicable to different rate schedules. PGE proposes to apply the SNA to additional rate schedules, discontinue the LRRA, and remove the weather normalization adjustment from the SNA. PGE

also proposes to allow the carry forward to future years adjustment amounts in excess of the current two percent limiter.

4. PGE's proposal to include energy storage associated with renewable resources in tariff Schedule 122, PGE's Renewable Resources Automatic Adjustment Clause tariff.

Each issue is addressed briefly below.

II. ISSUES

I. Storm Accrual Mechanism.

PGE's existing storm accrual mechanism, adopted in Docket No. UE 215 (Commission Order No. 10-478), applies to Level III Storm restoration costs. Under the current mechanism, PGE accrues an amount based on a 10-year rolling average of Level III storm costs. The mechanism allows positive, unspent balances to carry forward to future years. Negative balances are not allowed to be carried beyond the calendar year. AWEC's brief mischaracterizes this aspect of the current mechanism. AWEC argues that "[i]f major storm costs are higher than the accrual, PGE absorbs the additional cost, but if the costs are lower than the accrual, PGE retains the benefit."[1] That is incorrect. PGE does not retain the benefit when costs are lower than the accrual. Those unspent amounts are carried forward to use for Level III storms in future years. Negative balances are not carried forward, and it is this one-way carry-forward that PGE proposes be changed.

PGE's testimony by Bill Nicholson, Senior Vice President of Customer Service and Transmission and Distribution, and Larry Bekkedahl, Vice President of Transmission and Distribution, explained the need for the change to the mechanism.[2] Major storms are completely

[1] Reply Brief of the Alliance of Western Energy Consumers, p. 2.
[2] UE 335/PGE/800/13-16.

out of PGE's control. When such major storms hit, it is imperative that service be restored to customers expeditiously. Our customers expect that. PGE has no control over the occurrence of Level III storms, but must respond when they occur. The restoration costs do not occur every year, but when they do occur, they are significant. The current mechanism helps to smooth out the costs, but because it does not allow the account to carry negative balances forward, it results in the non-recovery of prudently incurred storm restoration costs. The proposed modification to the mechanism would allow for the recovery of prudently incurred costs.

Staff, in particular, argues that the modification to the current mechanism would shift risk to customers they should not bear. These are costs that are caused by weather. They are not within the control of PGE. Contrary to Staff's assertion, it is appropriate that customers pay prudently incurred costs of service, which include storm restoration costs. Under the modified mechanism proposed by PGE, customers would, over time, do just that – pay the costs of service, no more and no less.

All costs will, of course, be subject to prudence review. Some parties argue that PGE's inability to recover some of the storm restoration costs would incent PGE to keep costs down. It would not be appropriate as a matter of policy to deliberately not allow a utility to recover prudently incurred costs as some sort of incentive for behavior. And no such incentive is necessary. All storm restoration costs in the mechanism are subject to a prudence review. Commission Staff and other parties can review the costs and challenge any they believe are not prudent, and the Commission will decide the issue. CUB's brief goes so far as to claim that CUB is not capable of doing such a prudence review.[3] CUB may be underestimating its abilities. In any event, the Commission may review all costs. There should be no fear of imprudent costs being recovered.

[3] Reply Brief of the Oregon Citizens' Utility Board, p. 20.

CUB has argued that changing the mechanism is not necessary because PGE can file for deferrals in high storm cost years. Yet at the same time, Staff's brief notes that the $11.4 million deferral of Level III storm costs in Docket No. UM 1817 is not large enough.[4, 5] Saying that PGE can file a deferral, but at the same time saying that a deferral that is more than five times the annual storm restoration cost accrual is not large enough for deferral, is of little practical meaning to cost recovery.

The major storm accrual mechanism has been in place for several years and it has helped to recognize in prices the major storm costs that vary significantly from year to year. However, because the account is not allowed to have a negative balance, prudently incurred restoration costs are not recovered in years where major storm costs exceed the balance in the reserve account. Allowing the account to carry negative balances, to be offset by collections in future years, smooths out the costs in customer prices, and allows the recovery of prudently incurred storm restoration costs. The change should be approved.

II. Trended Weather in the Load Forecast.

This issue was only raised and addressed by Staff. As explained in PGE's Opening Brief, the issue here is relatively simple. The proposed change to the weather input in load forecasting will proactively capture the gradual warming that has occurred in the Portland area over the last 40 years. In simple terms, it estimates a simple linear trend in regional weather data.[6] This weather approach was used in PGE's recent Integrated Resource Plan ("IRP") Update, Docket No. LC 66. Staff argues that there does not need to be consistency between the weather forecasts in IRP dockets, and ratemaking dockets. PGE disagrees. Staff also argues that the trended

[4] Reply Brief of the Staff of the Public Utility Commission of Oregon, p. 5.
[5] In the Third Partial Stipulation the parties agreed that PGE's storm deferral should be addressed in the existing docket, UM 1817. However, Staff discussed the deferral, and its position on it, in Staff's Opening Brief.
[6] PGE/2800/2.

weather approach will bias loads down, thus increasing rates in rate cases. Staff ignores that PGE uses the same load forecast model in its Annual Power Cost Update ("AUT") tariff filings, and in those proceedings a lower load forecast would result in lower rates. PGE is not trying to manipulate the load forecast. On the contrary, PGE seeks the best weather assumption. If approved, PGE intends to consistently use the trended weather approach in future IRP dockets, rate cases, and AUT dockets.

The dollar impact in this docket of this issue is minimal. That is not the driver. The goal is to have the best depiction of weather included in PGE's load forecast. The trended weather approach will more accurately capture the effects of climate change on PGE's energy deliveries. It will provide a more accurate load forecast. PGE's proposed load forecasting methodology should be approved.

III. Decoupling.

Staff, CUB and Walmart addressed PGE's decoupling proposal in their briefs. Staff's brief also includes a good history of decoupling and PGE's decoupling mechanisms. PGE has had two decoupling mechanisms in place for many years: the LRRA has applied to Schedules 15, 38, 47, 49, 75, 83, 85, 89, 90, 91, 92, 95, and the direct access equivalent schedules. The SNA has applied to Schedules 7, 32, and 532. In this case PGE proposed to make four changes:

1. Discontinue the LRRA.
2. Apply the SNA to Schedules 38/538, 47, 49/549, and to the fixed generation charges in Schedules 83 and 85.
3. Remove the weather normalizing adjustment from the SNA to allow the full differences in use per customer to be refunded or charged to customers.

4. Keep the two percent limiter but include the ability to carry forward amounts over the two percent in a balancing account to be applied in subsequent years.

Staff and CUB oppose parts of PGE's proposals. Both argue that the proposed changes shift risk to customers and do not further the purposes of decoupling. PGE's testimony explained that the proposed changes advance the policy goals of decoupling and more accurately reflect costs in customer prices.[7]

This has been argued and briefed at length. The reply briefs of Staff, CUB, and Walmart do not raise new issues or arguments. PGE's arguments have been previously laid out. These are very important issues for PGE, but we will attempt to be brief here.

The SNA is a revenue-per-customer form of decoupling. A number of electric and gas utilities in the region have recently adopted revenue-per-customer decoupling for larger customers.[8] Moving to the SNA for larger customers will bring PGE more in line with other regional utilities. This is a common approach and is in line with the purpose underlying decoupling. Decoupling does not ask customers to pay more or less of the variable cost of providing electricity. Decoupling is designed to cover the Commission-approved fixed costs of providing electricity.

Walmart objects to the application of the mechanism to Schedules 83 and 85. Walmart claims that decoupling will have the effect of eliminating large customers' ability to mitigate economic downturns by reducing usage. This assumes that it is reasonable policy to allow customers to avoid contributions towards Commission-approved fixed costs of providing service. We do not believe this is a reasonable policy and that it runs contrary to the purpose of decoupling to allow recovery of the utility's fixed costs. Walmart also argues that decoupling

[7] UE 335/PGE/1300/31, UE 335/PGE/2400/6-7, UE 335/PGE 2900/3-6.
[8] UE 335/PGE/1300/30, citing tariffs from Avista, Cascade Natural Gas, and Puget Sound Energy.

deviates from cost causation principles. It does not. In fact, decoupling furthers cost of service by more closely reflecting in bills the cost of serving the customer, no more and no less. If customers increase their use, they receive a refund so that they do not contribute more than necessary to cover the fixed costs of providing service.

In addition, as stated in PGE's testimony and opening brief, PGE realizes that Schedule 85 reflects a range of customers with loads from 200 kW to 4 MW. In its testimony, PGE stated that if the Commission is concerned that the threshold for application of decoupling is too high, it could limit decoupling such that it would not apply to Schedule 85 customers.[9] Such a threshold would lower the applicability of decoupling to 200 kW, rather than 4 MW.

Staff's brief states that PGE proposes to eliminate the two percent cap on rate changes associated with decoupling.[10] That is incorrect. PGE does not propose to eliminate the cap. PGE proposes that amounts in any year that exceed the two percent cap should be carried forward to the subsequent year. The two percent cap stays in place each year, but amounts over the cap would carried forward and reflected in bills in later years. This is to provide for proper cost recovery while at the same time limiting the customer price impacts in any one year, which is appropriate. Both Staff and CUB claim in testimony, without support, that allowing amounts to carry forward would harm customers. It would allow for proper recovery of the cost of serving customers, and no more. In addition, if the Commission adopts PGE's weather proposal, it will become more likely that the two percent limit could be reached in any given year, and a carry forward provision is appropriate and necessary. With the carry-forward, customers will remain protected from a price impact greater than two percent in any year. This is also smaller

[9] PGE/2900/11.
[10] Staff Brief on Contested Issues, p.9.

than the three percent cap approved for Avista in Oregon.[11] PGE's request is reasonable and should be approved.

PGE's proposal to remove weather normalizing adjustment from the SNA will allow the full differences in use per customer to be refunded to customers or charged to customers.[12] This is consistent with the basic premise of decoupling that "fully removes the throughput yield incentive that otherwise exists in traditional ratemaking, where a utility needs to promote the sale of kWhs to fully recover fixed costs."[13] Contrary to the assertions of Staff and CUB, this would benefit both PGE and customers because the current weather adjustment burdens customers and PGE with increased weather risk.[14] This approach was suggested for PGE specifically by an independent evaluator of PGE's decoupling mechanism.[15]

PGE's testimony illustrated how removing weather normalizing will reduce bill volatility.[16] Staff claims the reduced volatility is very minimal. CUB makes the unsupported claim that it could greatly increase the volatility of customer bills. CUB is incorrect. Most customer charges are volumetric and weather does cause variations in customer bills. Decoupling would decrease the swings in bills due to unusually hot or cold weather.

However, if the Commission decides not to adopt PGE's proposal to remove the weather adjustment from the decoupling mechanism, it can still choose to allow PGE to remove the LRRA and expand the existing SNA to Schedule 83 and 85 customers. In addition, PGE requested modifications to the two percent cap is based on the removal of the weather

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[11] UE 335/PGE/2400/7.
[12] PGE/2400/3.
[13] PGE/2900/3-4.
[14] PGE/1300/31.
[15] PGE/1306/73.
[16] UE 335/PGE/2900/5-6.

adjustment. The extension of the existing decoupling mechanism to Schedules 83 and 85 could occur without full weather decoupling and modification of the two percent cap.

Legal Issue: CUB's brief claims that PGE's proposed changes are illegal. CUB is incorrect.

A. CUB's arguments regarding the "illegality" of PGE's proposed improvements to its decoupling mechanism involve a new, narrow statutory interpretation.

CUB admits that it now has a new legal interpretation of what is permitted under the deferral statute which does not align with CUB's support of what appear to be similar improvements to the decoupling mechanisms of natural gas utilities in prior dockets.[17] With this new legal interpretation, CUB argues for a very narrow view of what is permitted under the deferral statute. CUB's position seems to be largely rooted in a 1987 Attorney General opinion and ignores the past thirty years of Commission precedent in approving a variety of improvements to utilities' decoupling mechanisms.[18] It appears that CUB would like to turn back the clock and narrowly focus on this 1987 opinion rather than allow PGE to identify improvements necessary for the Company and its customers.

Additionally, CUB simply dismisses PGE's proposed iterative approach to these modifications and would rather relitigate these exact issues in future proceedings—an unproductive and inefficient use of the Company's, Commission's, and intervenors' limited resources.

1. *CUB takes a new, narrow approach to what is permitted under the deferral statute and ignores the history of the Commission continuously approving improvements to the utilities' decoupling mechanisms.*

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[17] *See* CUB Reply Brief at 11.

[18] *See, e.g.,* Commission Order No. 10-478 (Dec. 17, 2010) and Commission Order No. 09-020 (Jan. 22, 2009).

Now that PGE is proposing weather-related improvements to its decoupling mechanism, which CUB previously signed onto for Cascade and Avista,[19] CUB has a new, narrow, interpretation of the deferral statute. CUB claims that its prior settlement agreements for these natural gas utilities should not be viewed as a "tacit endorsement" in this proceeding[20]; however, it appears that CUB simply does not wish to permit this policy change for electric utilities and is therefore arguing for a new statutory interpretation to find legal impediments that did not previously exist.

CUB claims that because these types of weather-related adjustments are not *expressly permitted* by statute and there is no specific carveout for this type of weather-related adjustment, they are therefore impermissible and illegal.[21] CUB argues that "weather-related revenue adjustments (*i.e.*, decoupling) are not expressly authorized in any legislative or statutory grounds."[22] Although ORS 757.259 expressly provides an exception to the prohibition against retroactive ratemaking for deferrals, CUB now takes an incredibly narrow interpretation of what is permitted under that statute.

In taking this narrow view of statutory interpretation, CUB would like to minimize Commission precedent in approving improvements to PGE's and other utilities' decoupling mechanisms that would presumably not have been permitted had the Commission agreed with CUB's arguments.[23] CUB's arguments largely rest on a 1987 Attorney General opinion. CUB cites to that opinion's statements that revenue adjustment clauses are an "evil."[24] It appears that CUB would like to ignore prior approvals of decoupling mechanisms and these improvements in

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[19] *See* CUB Reply Brief at 10.
[20] CUB Reply Brief at 11.
[21] CUB Reply Brief at 11-12.
[22] CUB Reply Brief at 12.
[23] *See* CUB Reply Brief at 10.
[24] CUB Reply Brief at 12 citing Or. Op. Atty. Gen. OP-6076 (Or. A.G.), 1987 WL 278316 at 14 ("[A] 'revenue adjustment clause' would violate the rule against retroactive ratemaking. Revenue adjustments are the precise evil against which the rule against retroactive ratemaking protects.").

favor of strictly adhering this 1987 opinion in a vacuum. Relying almost solely on this over 30 year old opinion to support its new, narrow statutory interpretation ignores the past three decades of Commission action in approving decoupling mechanisms. As a policy matter, CUB opposes PGE's proposed improvements to its decoupling mechanism and has now modified its legal opinion in this case to support that policy position.

These new legal impairments that CUB has discovered since agreeing to similar improvements for natural gas utilities appear to be even more suspect because CUB's pivot is unsupported from a policy perspective. Because CUB cannot explain its abrupt change in position from when it supported what appear to be similar weather-related improvements for natural gas utilities, it now must rely on this new, narrow statutory interpretation. As PGE explained in its opening brief, one of CUB's primary arguments opposing PGE's proposal is that the weather normalization would shift risks from the Company to customers.[25] However, CUB's own logic would mean that any shift would be less for an electric company than for a gas company. It appears that to sidestep this issue, CUB would rather simply claim that these Commission-approved programs are illegal.[26]

Additionally, CUB's attempts to turn back the clock to narrowly interpret what is permitted under the deferral statute is even more unreasonable in light of the weather-related changes that have occurred. As PGE explained in its opening brief, weather causes changes in customer bills, but weather decoupling tempers those changes.[27] PGE's proposed weather decoupling will credit customers for part of their increased bills in a hot summer and collect from them due to a cooler than normal summer.[28] PGE also explained that normal weather forecasting

[25] PGE Opening Brief at 13.
[26] *See* CUB Opening Brief at 11.
[27] PGE Opening Brief at 9.
[28] PGE Opening Brief at 9-10.

does not include the long-term warming in the Portland area, which would result in under recovery of revenues when the forecast is higher than what is likely to occur.[29] PGE explained that its proposed improvements for trended weather forecasting will address this issue and eliminate this built-in bias.[30]

CUB appears to be alone in its novel legal interpretation of the deferral statute. While other parties may have concerns with PGE's proposed improvements on policy grounds, only CUB makes the bold assertion that such modifications would be illegal.

2. *CUB too easily dismisses PGE's planned improvements to its decoupling mechanism in favor of unnecessarily and inefficiently relitigating these exact policy and legal issues in future proceedings.*

CUB too easily dismisses PGE's proposed iterative approach and staged improvements to its decoupling mechanism out of hand. CUB differentiates PGE's proposal from real-time programs such as NW Natural's WARM program that CUB claims does not require retroactive ratemaking.[31] CUB dismissively states that it "appreciates the Company's willingness to tailor its programs within the contours of Oregon's prohibition against retroactive ratemaking. Unfortunately for the Company, however, there is a difference between future theoretical plans and its current proposal."[32] It appears that CUB would like to unnecessary relitigate this issue in the future—wasting significant resources—rather than take seriously PGE's attempts to address CUB's concerns in this proceeding. Such an approach would be highly inefficient. Moreover, because CUB appears to be staunchly opposed to PGE's proposal on both policy and legal grounds, such a proceeding would likely involve relitigating the identical policy issues that are being addressed here and should be resolved in this proceeding.

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[29] PGE Opening Brief at 10.
[30] PGE Opening Brief at 10.
[31] CUB Reply Brief at 9.
[32] CUB Reply Brief at 10.

IV. Energy Storage Associated with Renewable Resources Included in Tariff Schedule 122, PGE's Renewable Resources Automatic Adjustment Clause Tariff.

PGE proposes to modify Tariff Schedule 122, PGE's Renewable Resources Automatic Adjustment Clause ("RAC") to include storage resources, consistent with ORS 469A.120.[33] As the docket progressed, other parties, particularly AWEC, made suggestions for modifications to PGE's proposal. PGE agreed with most of those suggestions, and has modified its proposal accordingly. Specifically, PGE agrees that the phrase "associated energy storage" be included in the tariff provisions to track the language in the statute. PGE also modified its proposal to drop its request that the Commission determine in this docket what resources are "associated" storage projects.

AWEC's brief states that it is not sure if PGE is still seeking a determination in this docket that storage used to integrate renewables qualifies as associated energy storage. PGE is not. As stated in PGE's latest round of testimony, and quoted in PGE's opening brief:

> [w]e are not, in this rate case, asking Parties to pre-determine whether an investment meets the requirements of "associated energy storage." Rather, we are requesting that the legislatively authorized automatic adjustment clause be established as part of Schedule 122, leaving the determination to the Commission in future cost recovery filings.[34]

Staff states it supports the proposal, including that what costs are "associated" with integrating renewables be determined later. With the clarification above, it appears that all parties except CUB support the modified proposal.

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[33] Senate Bill 1547 from the 2016 legislative session, codified as Oregon Revised Statutes 469A.120, provides in part:

> (2)(a) The Public Utility Commission shall establish an automatic adjustment clause as defined in ORS 757.210 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, costs related to associated electricity transmission and costs related to associated energy storage.

[34] PGE/2900/13.

CUB makes two arguments in opposition: 1) including storage in the RAC may have implications for the RPS compliance cost cap; and 2) the Commission should wait to create the required automatic adjustment clause.

CUB's concerns about the cost cap are misplaced. As stated in PGE's testimony, associated energy storage is not a cost of RPS compliance, and therefore not part of the cost cap.[35] In its brief, AWEC agrees.[36]

CUB's other argument is just that the Commission should delay creation of the tariff provision, with little reasoning behind the argument. The 2016 legislature directed the Commission to establish an automatic adjustment clause for renewable resources and "costs related to associated energy storage." Tariff Schedule 122 is a renewable resource automatic adjustment clause, and adding to associated energy storage costs is an efficient and appropriate way to comply with the legislative direction.

PGE's RAC tariff proposal, with the changes proposed by AWEC, should be adopted.

III. CONCLUSION

PGE believes that the record supports, and requests that the Commission enter an order that:

1. Approves the request to modify the existing Level III Storm accrual mechanism to allow negative as well as positive balances to be carried forward;
2. Allows use of a trended weather assumption in load forecasting to better reflect the impact of changing weather conditions and provide a more accurate forecast;
3. Adopts and approves the four changes to PGE's existing decoupling mechanism; and

[35] UE 335/PGE/2900/14.
[36] "There is no connection between cost recovery through the RAC and the calculation of PGE's incremental cost of RPS compliance." Reply Brief of AWEC, p. 9.

4. Approves, consistent with ORS 469.120, the proposed changes to Tariff Schedule 122, PGE's Renewable Resources Automatic Adjustment Clause, to include storage resources associated with renewable resources, with the determination of what resources qualify to be made in later dockets.

Dated this 26th day of October, 2018.

Respectfully submitted,

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