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***Via Electronic Filing***

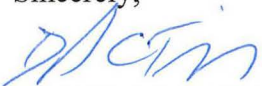
Oregon Public Utility Commission  
Attention: Filing Center  
201 High Street, Suite 100  
PO Box 1088  
Salem OR 97308-1088

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

Dear Filing Center:

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

Thank you for your assistance.

Sincerely,  
  
DOUGLAS C. TINGEY  
Associate General Counsel

DCT:bop

Enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UE 335**

In the Matter of

PORTLAND GENERAL ELECTRIC  
COMPANY,

Request for a General Rate Revision.

**OPENING BRIEF OF PORTLAND  
GENERAL ELECTRIC COMPANY**

Portland General Electric Company (“PGE”) submits this opening brief regarding the remaining contested issues in this general rate case.

### **BACKGROUND AND PROCEDURAL POSITION**

PGE filed this rate case on February 15, 2018, seeking revision to its prices and some terms of service, with a request for an overall price increase of 4.78 percent. PGE’s initial filing included voluminous testimony, with exhibits, supporting its request. PGE also provided detailed work papers, and the required responses to the standard data requests. PGE has subsequently responded to almost 600 data requests from the various parties to this case. Pursuant to the procedural schedule adopted in this docket, PGE has also provided updates to its power costs and load forecast throughout this proceeding. PGE and other parties to this docket have each filed two subsequent rounds of testimony.

The parties have put substantial effort into understanding the issues and engaging in settlement discussions. As a result, most of the issues raised in this case have been resolved. The parties have entered into and filed five separate stipulations: one resolving net variable power cost issues, three resolving numerous cost and rate issues, and one resolving direct access issues. All these stipulations are uncontested, except for the direct access stipulation. That stipulation is being addressed on a separate procedural schedule. The net effect of the adjustments agreed to in the stipulations, and the power cost and load forecast updates, is that the overall requested price increase is now 0.67 percent.

There remain only four issues to be decided by the Commission in this part of the docket:

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 ("LRRR"), and the Sales Normalization Adjustment ("SNA") each applicable to different rate schedules. PGE proposes to apply the SNA to additional rate schedules, discontinue the LRRR, 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.

There have been five rounds of testimony addressing these issues. They are predominantly policy issues, and there are few, if any, disputed facts. There is a complete record of the parties' positions and arguments. The Issues List filed by the parties on September 10, 2018, identifies the various pieces of testimony addressing each issue. Each issue will be addressed briefly below.

## **ISSUES**

### **I. Storm Accrual Mechanism.**

PGE's existing storm accrual mechanism, adopted in Docket No. UE 215 (Order 10-478), applies to Level III Storm restoration costs. These are the most severe storms. For a storm to be considered Level III one of the following criteria must be met:

1. Impacts 50,000 customers or more, or

2. Qualifies for Institute of Electrical and Electronics Engineers Major Event Day exclusion, or
3. Several substations and feeders are out of service.<sup>1</sup>

Under the current mechanism, PGE accrues \$2.6 million for Level III storm restoration costs. Based on the 10-year rolling average mechanism approved in Order 10-478, the accrual amount in this docket is \$3.8 million. The current mechanism allows positive, unspent balances to carry forward to future years. Negative balances are not allowed to be carried outside of the calendar year, which causes prudently incurred Level III storm restoration costs that exceed the balance to not be recovered in prices. PGE's proposal is to remedy this, by allowing the storm accrual account to have a negative balance when prudent costs exceed the balance in the account. With this change, the storm account will become a true balancing account. Prudently incurred restoration costs will be covered by the account – and no more than that amount will be recovered. The arguments for this are straight-forward – 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. Allowing negative balances in the account for these prudently incurred costs allows proper recovery and normalizes the irregular nature of the storm costs in customer prices.

Other parties have made various arguments against this change to the major storm mechanism. As explained in PGE's testimony,<sup>2</sup> the arguments are misplaced. Some of the arguments are briefly addressed below.

Staff argues that storm restoration costs are a “stochastic risk” that the company should assume. First, the amount in prices for storm costs is not set using stochastic analysis. It is a point

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<sup>1</sup> PGE/800/13; Commission Order 10-478.

<sup>2</sup> PGE/2700/1-14.

estimate. Of further concern is that in its discussion Staff refers to Commission decisions with deadbands on power cost variances as large as 250 basis points, or \$100 million for PGE. Staff admits this amount is too large for storm costs, but also argues that 47 basis points, the amount of 2017 storm costs, is too small.<sup>3</sup> It is difficult to determine what Staff believes is appropriate. In addition, this type of argument with such large numbers is particularly inapposite here where PGE has a Level III storm account that has existed for years, and the only issue is whether the account should be allowed to have negative balances. Staff's arguments are misdirected.

AWEC argues against the change to the storm account by claiming that under-recovery in some years is offset by over-collection in other years, so overall cost recovery is reasonable.<sup>4</sup> That argument is mathematically incorrect for the current storm account unless the accrual amount is set such that the account would never have a negative balance. PGE's testimony showed that the argument is incorrect using the recent history of storm costs.<sup>5</sup> An account that does allow negative balances, as proposed, would allow under-recovery in some years to be offset by years with lower storm costs.

CUB argues that changing the mechanism is not necessary because PGE can file for deferrals in high storm cost years. PGE filed such a deferral for 2017 storm costs, and Staff and AWEC have recommended that the deferral not be granted. It is of little meaning for a party to propose a deferral could be filed when multiple other parties will oppose the granting of the deferral.

Staff also makes the argument that a modified storm balancing account would "provide no incentive for PGE to prudently manage those costs."<sup>6</sup> CUB makes a similar claim. All costs in

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<sup>3</sup> Staff/700/6.

<sup>4</sup> AWEC/400/2.

<sup>5</sup> PGE/2700/6.

<sup>6</sup> Staff/700/7.

the storm account are and will be subject to prudence review, by Staff, CUB and others. We have confidence that Staff and CUB will do just that. It should also be included in a discussion of incentives that it would not be good policy to have a storm cost mechanism that provided a disincentive for a utility to quickly restore service to customers during a major storm.

AWEC also claims that PGE's proposal is not fully developed. That is incorrect. The major storm mechanism is already in place. The change requested is to allow the account to have a negative balance when prudent costs exceed the amount in the account. The account would then function with similar accounting treatment to the long-standing major maintenance accruals the Commission has approved for some of PGE's thermal generating plants. This is not a new concept and is fully developed.

The major storm accrual mechanism has been in place since adopted in Docket No. UE 215. 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, in years where major storm costs exceed the balance in the reserve account, prudently incurred costs are not recovered. 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 is relatively simple. It is a proposed change to one input in load forecasting. PGE has for years used a 15-year historical average of temperatures in its load forecast. PGE proposes to change that and use a trended weather approach for the normal weather assumption in forecasting. As explained in PGE's testimony,<sup>7</sup> the trended normal weather approach captures the

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<sup>7</sup> PGE/1100/8.

gradual warming that has occurred in the Portland area over the last 40 years. Only Staff has opposed this change. Contrary to Staff's assertion, it is not complex. As explained in testimony, "[t]rended weather involves applying a linear fit, which means multiplying by the slope and then adding the offset. It is easy to implement and straightforward to describe."<sup>8</sup>

Staff's other argument is the lack of precedent by other commissions. PGE's testimony identified at least five dockets in other jurisdictions that discuss trended weather.<sup>9</sup> In addition, United States governmental agencies have also used trended weather assumptions for electric demand forecasting.<sup>10</sup>

Climate change has been explicitly or implicitly recognized and addressed in recent electric utility legislation, and State and Commission policy. It should be recognized in load forecasting as well. Trended weather better models climate change, and will provide a more accurate load forecast. PGE's proposed load forecasting methodology should be approved.

### **III. Decoupling.**

PGE has had decoupling mechanisms in place for many years. The LRRRA has applied to Schedules 15, 38, 47, 49, 75, 83, 85, 89, 90, 91, 92, 95, and their 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 LRRRA.
2. Apply the SNA to Schedules 38/538, 47, 49/549, and to the fixed generation charges in Schedules 83 and 85.

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<sup>8</sup> PGE/2800/2.

<sup>9</sup> See *id.* at 8.

<sup>10</sup> *Id.* at 3.



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, CUB and Albertsons oppose parts of PGE's proposals and claim that the proposed changes "shift risk" to customers. As explained more fully in PGE's testimony, the proposed changes advance the policy goals of decoupling, and more accurately reflect costs in customer prices.

Staff and CUB express concern about the application of decoupling to the larger nonresidential schedules. PGE's proposal does not apply to the two largest customer schedules, Schedules 89 and 90. 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.<sup>11</sup> Such a threshold would lower the applicability of decoupling to 200 kW, rather than 4 MW.

CUB and Staff also oppose PGE's proposal that amounts in excess of the two percent annual cap in PGE's decoupling mechanism be carried forward to subsequent years. CUB sees no need to change the cap. Staff claims, with no reasoning stated, that allowing balances to carry forward will harm customers. PGE disagrees. Allowing balances over the two percent cap to be carried forward is a reasonable balance between shareholders and customers. 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

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<sup>11</sup> PGE/2900/11.

any year. As a comparison, PGE's testimony pointed out that Avista's decoupling mechanism provides for a three percent limit and also includes a carry forward provision.<sup>12</sup> PGE's request is reasonable and should be approved.

PGE's proposed improvements to its decoupling mechanism include removal of the weather normalizing adjustment from the SNA to allow the full differences in use per customer to be refunded to customers or charged to customers.<sup>13</sup> Generally, this proposed modification "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."<sup>14</sup> This improvement would benefit both PGE and customers because the current weather adjustment burdens customers and PGE with increased weather risk.<sup>15</sup> This proposed improvement aligns with the Commission's policy goals when it first approved PGE's decoupling mechanism, which included removing the relationship between sales and profits, mitigating PGE's disincentives to promote energy efficiency, and improving PGE's ability to recover its fixed costs.<sup>16</sup> Such an approach was suggested for PGE specifically by an independent evaluator of PGE's decoupling mechanism.<sup>17</sup>

CUB also claims that weather decoupling increases the volatility of customer bills. That is not correct. Most customer charges are based on volume. Weather does cause changes in customer bills, but weather decoupling tempers those changes. In a very hot summer, for example, customers use more electricity, and consequently receive higher bills. Similarly, in a cooler than normal summer, customers will use less electricity. As discussed in PGE's testimony,<sup>18</sup> weather

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<sup>12</sup> PGE/2400/7.

<sup>13</sup> PGE/2400/3.

<sup>14</sup> PGE/2900/3-4.

<sup>15</sup> PGE/1300/31.

<sup>16</sup> Commission Order No. 10-478 at 10 (Dec. 17, 2010) citing Commission Order No. 09-020 at 29 (Jan. 22, 2009).

<sup>17</sup> PGE/1306/73.

<sup>18</sup> PGE/2900/6.

decoupling will credit part of their increased bill in a hot summer, and collect from them due to a cooler than normal summer.

As discussed above regarding the load forecasting issue, current normal weather forecasting does not include the long-term warming in the Portland area. The result is under-recovery of revenues because the forecast is higher than what is likely to occur. Adoption of the trended weather forecasting will address this issue and eliminate this built-in bias.

CUB also made a legal argument in its testimony, claiming that decoupling is retroactive ratemaking. PGE indicated that it would address this argument in its briefs and does so here.

**A. PGE’s Proposal to Remove the Weather Adjustment Does Not Constitute Inappropriate Retroactive Ratemaking.**

PGE’s proposed improvement to remove the weather normalization does not constitute impermissible retroactive ratemaking as CUB claims and should be approved by the Commission because: (1) it would benefit both PGE and its customers; (2) it is permitted under the deferral statute; and (3) the Commission has already approved similar mechanisms for natural gas utilities in Oregon where the risk profile to customers is potentially greater than with electric customers.

**1. PGE’s Proposal to Remove the Weather Adjustment Is Permitted Under the Deferral Statute.**

PGE’s current Commission-approved decoupling mechanism does not constitute retroactive ratemaking because it is permitted under Oregon’s deferral statute.<sup>19</sup> To achieve its policy objectives in opposing PGE’s proposed modifications, CUB appears to be employing an unreasonably narrow view of the statute. CUB opposes PGE’s proposal to include weather in its decoupling mechanism because it “represents inappropriate (and maybe illegal) retroactive

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<sup>19</sup> ORS 757.259.

ratemaking[.]”<sup>20</sup> While CUB attempts to characterize this as a legal impediment, whether to approve PGE’s proposed improvements to its decoupling mechanism is actually a policy determination.

PGE identified an example where another state commission, the Washington Utilities and Transportation Commission (“WUTC”), approved Puget Sound Energy’s decoupling proposal without finding any issues of retroactive ratemaking.<sup>21</sup> In that case, the WUTC determined that decoupling mechanism did not constitute retroactive ratemaking stating: “even under the current system of ratemaking, costs and rates will diverge immediately following implementation of a rate change.”<sup>22</sup>

Although CUB claims that PGE’s proposed modifications would constitute unlawful retroactive ratemaking, CUB concedes that PGE currently defers its decoupling adjustment, and that “deferred accounting is the allowable exception to retroactive ratemaking.”<sup>23</sup> CUB argues that the statute only permits this “when decoupling lost revenues related to *energy conservation* programs” but that it “does not authorize decoupling associated with weather variation.”<sup>24</sup> It seems that CUB’s rationale for why this would not be permitted under the statute is simply that it is not necessary.<sup>25</sup> Such a policy question is separate from the legal issue of whether it would be permitted under the statute, which it is.<sup>26</sup>

It appears that much of CUB’s opposition to PGE’s proposal is based on the fact that customers could receive a surcharge or credit as an adjustment in the current year, for the prior

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<sup>20</sup> CUB/200/16.

<sup>21</sup> PGE/2900/9 citing Docket No. UE-901183-T, Third Supplemental Order (Apr. 10, 1991), at 10.

<sup>22</sup> Docket No. UE-901183-T, Third Supplemental Order (Apr. 10, 1991), at 10.

<sup>23</sup> CUB/300/9.

<sup>24</sup> CUB/200/23.

<sup>25</sup> See CUB/200/23-24.

<sup>26</sup> ORS 757.259.

year's over- or under-recovery.<sup>27</sup> CUB argues that “while customers still face the volatility in bills caused by changes in weather, this volatility is increased, because of the retroactive charge or credit.”<sup>28</sup> CUB states that taking the Company's lost earnings and applying to the next year's bills would be “inappropriate retroactive ratemaking.”<sup>29</sup> CUB differentiates PGE's proposal from Northwest Natural's WARM program — which CUB supported — noting that Northwest Natural “adjusts bills in real time and does not require retroactive ratemaking[.]”<sup>30</sup> In testimony, PGE noted that its “goal is to provide decoupling adjustments on the monthly bill to which the adjustment is based.”<sup>31</sup> As PGE explained, this would mean that if customers are paying a higher bill due to extreme weather or lower bill due to very mild weather, these customers will also receive a decoupling bill credit or surcharge.<sup>32</sup> PGE would not have the systems in place to achieve this in the 2019 period, but plans to make updates to enable these real-time adjustments within the next few years.<sup>33</sup> These future modifications should alleviate CUB's concerns regarding the timing of the bill adjustments.

***2. The Commission Has Already Approved Similar Decoupling Mechanisms for Other Oregon Utilities, which CUB Supported, but is Now Unpersuasively Attempting to Differentiate.***

As CUB notes in testimony, in Oregon, weather decoupling has been approved for Cascade Natural Gas Corporation (“Cascade”) and Avista.<sup>34</sup> CUB attempts to differentiate natural gas and electric utilities in Oregon by focusing on the risk that CUB sees as being transferred from

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<sup>27</sup> See CUB/200/19.

<sup>28</sup> CUB/200/19.

<sup>29</sup> CUB/200/22-23.

<sup>30</sup> CUB/200/22.

<sup>31</sup> PGE/2900/7.

<sup>32</sup> PGE/2900/7.

<sup>33</sup> PGE/2900/7.

<sup>34</sup> CUB/200/22.

shareholders to customers. CUB argues that more weather risk exists for natural gas utilities than for electric utilities.

CUB notes that “[t]he weather risk of a gas utility is much greater than an electric utility because heating homes is the primary residential use of gas.”<sup>35</sup> However, one of CUB’s primary arguments in opposing PGE’s proposal is that the weather normalization mechanism will shift risks from the utility to customers. Based on CUB’s own logic, this shift would be less for an electric company than for a gas company, many of which already have these mechanisms.

CUB also attempts to differentiate PGE’s proposal from Cascade and Avista’s programs, which CUB supported, by claiming that at the time it supported those proposals it was not aware of these legal impediments, but “now recognizes that these problems need to be addressed.”<sup>36</sup> CUB’s attempts to differentiate the weather decoupling that it supported for Cascade and Avista by making a policy argument regarding the “fundamental differences between natural gas and electric utilities.”<sup>37</sup> However, these alleged policy differences do not speak to the legal impairment that CUB claims to find in PGE’s proposal.

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

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.

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<sup>35</sup> CUB/200/22.

<sup>36</sup> CUB/300/10.

<sup>37</sup> CUB/300/11.

Consistent with this statute, PGE proposes to modify Tariff Schedule 122, PGE’s Renewable Resources Automatic Adjustment Clause (“RAC”), to include storage resources. The RAC has been in place for over 10 years. It is an automatic adjustment clause that deals with renewable resources. It has a known and used procedure for prudence review by the Commission. Adding storage costs associated with renewable resources makes sense, and would comply with the requirements of ORS 469.120 regarding storage costs.

AWEC proposes modifications to the proposal and CUB opposes the proposal. PGE agrees with one of AWEC’s proposals regarding this issue, and with part of the other. PGE disagrees with CUB’s proposals. First, AWEC proposes that PGE’s tariff language include the phrase “associated energy storage” consistent with the statute. PGE agrees, and has stated so in testimony.<sup>38</sup> Moreover, all of PGE’s planned storage projects pursuant to UM 1856 (House Bill 2193) fit within the meaning of “associated energy storage.” The intent is to comply with the statute, and using the statutory language is appropriate.

AWEC further argues that the term “associated” be defined later – when an energy storage project is included in the RAC, or in AR 610, the Renewable Portfolio Standards rulemaking docket. In its Surrebuttal testimony PGE stated:

[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.<sup>39</sup>

PGE realizes that this does not guarantee or pre-approve storage cost recovery. In order to recover associated storage costs, PGE would file an advice filing to change Schedule 122 prices. In the

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<sup>38</sup> PGE/2400/9.

<sup>39</sup> PGE/2900/13.

Commission's review process, Staff and other parties may request that PGE demonstrate that the costs are "associated energy storage" eligible for recovery under the automatic adjustment clause.

CUB's arguments are, in essence, that nothing should be done now to comply with ORS 469.120. CUB argues that storage projects resulting from Docket UM 1856 will be allowed into prices pursuant to HB 2193 (2015 Regular Legislative Session),<sup>40</sup> and for energy projects beyond those in UM 1856, that the SB 978<sup>41</sup> proceeding is the proper place to set policy. These arguments are misplaced. CUB is correct that HB 2193 directs that the subject storage projects be allowed in prices. But that only applies to the projects under that particular statute. ORS 469.120 requires an automatic adjustment clause for other storage projects. Further, the SB 978 process is a much more high-level, potentially broad process that would address more than the subject of storage costs. In fact, the SB 978 process concluded with its report to the legislature, submitted September 14, 2018, and did not include any reference to the handling of energy storage projects beyond those directed in HB 2193. CUB's arguments would just delay what the legislature directed should happen in the 2016 legislative session. PGE's RAC tariff proposal, with the change proposed by AWEC, should be adopted.

### **CONCLUSION**

With respect to the four remaining issues in this docket, PGE believes that the record supports, and requests that the Commission:

1. Approve the request to modify the existing Level III Storm accrual mechanism to allow negative as well as positive balances to be carried forward;
2. Allow use of a trended weather assumption in load forecasting to better reflect the impact of changing weather conditions and provide a more accurate forecast;

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<sup>40</sup> 2015 Oregon Laws, Chapter 312, Section 1-5.

<sup>41</sup> 2017 Regular Legislative Session.



3. Adopt and approve the four changes to PGE's existing decoupling mechanism; and
4. Approve, 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.

Dated this 5<sup>th</sup> day of October, 2018.

Respectfully submitted,



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