BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 435

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

STAFF OPENING BRIEF

I. Introduction.

PGE seeks a base rate increase on January 1, 2025, of 8.6 percent and a 1.3 percent rate increase mid-year to recover costs of the Seaside battery energy system after it goes into service.[1] PGE explains that the current 0.3 percent increase forecasted for Net Variable Power Costs in Docket No. UE 436 will be offset by a 0.3 rate decrease from supplemental schedules that will go into effect on January 1. However, the final rate change for NVPC will not be known until the final update.[2]

PGE's request to increase base rates in 2025 comes very soon after a 16.5 percent change in rates on January 1 of this year and other rate increases in previous years. As reported in testimony of Bob Jenks of the Oregon Citizens' Utility Board (CUB), in the last 25 months from December 2021 to January 2024, PGE's rates increased by 43.8 percent.[3] This rapid increase in rates has put further strain on PGE's most vulnerable customers by increasing the affordability gap. In PGE's Energy Burden Assessment, it identified 118,000 low-income customers with high energy burden. This number is only set to grow with PGE's proposed rate increase as PGE's rates have outpaced wage growth for multiple years. This is made worse by PGE's inadequate assistance levels for its lowest income (0-30% SMI) customers. Further, discussions of affordability often ignore the segment of residential customers who only marginally do not qualify for income-based assistance. These customers are uniquely burdened by this compounding increase as they are susceptible to having a high energy burden, but just barely do not qualify for assistance.

PGE's rapid increase in rates and the proximity to the last rate increase are significant for reasons other than demonstrating the negative financial impact on PGE's ratepayers. These significant and recent increases in revenue, coupled with PGE's use of its 2024 budget rather

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[1] PGE/2100, Ferchland-Liddle/2.

[2] PGE also anticipates a one percent rate decrease in Docket No. UE 427, in connection with its Clearwater Wind Facility.

[3] CUB/100, Jenks/4.

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than actual costs and revenues for its base year, make it difficult to verify PGE's need for additional revenue. Staff and intervenors have no meaningful way to verify whether PGE's actual expenses in 2024 matched the increase in revenue provided to PGE on January 1, 2024, let alone verify whether it is reasonably certain expenses will increase in 2025.

PGE testifies that parties could verify PGE's 2024 forecast/budget by examining PGE's actual expenses in 2024. There are two flaws with this argument. First, the last round of Staff and intervenor testimony was filed in the third quarter of 2024, before a year's worth of expenses are known. Second, basing the soundness of a utility's forecasted expense on a real-time review of the utility's current spending gives the utility a perverse incentive to overspend.

The Alliance of Western Energy Consumers (AWEC) urges the Commission to reject PGE's filing based on PGE's use of its 2024 budget as its base year as opposed to a base year of actual expenses. AWEC's concerns mirror Staff's. While Staff does not seek outright dismissal, most of its adjustments to expense are based on PGE's failure to meet its burden of proof of showing the forecasted increases in expenses are "reasonably certain" to occur and more generally, that its proposed rates are just and reasonable.[4]

II. Issues.

A. Cost of Capital

Issue No. 1. What should be PGE's authorized return on equity?

PGE's current authorized return on equity (ROE) is 9.5 percent. PGE testified that its financial analysis supports an ROE within a range of 10.25 to 11.25 percent. Nonetheless, PGE initially asked the Commission to increase its ROE to 9.8 percent and subsequently reduced its requested ROE to 9.65.

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[4] *In re US West Communications, Inc.*, UT 125, Order No. 00-191 (August 14, 2000) ("[B]ecause ratemaking is prospective, 'recurring increases in revenues and expenses that are reasonably certain to occur are added to the test year."); *In the Matter of PacifiCorp Request for a General Rate Revision,* UE 374, Order No. 20-473, p. 5 (December 18, 2020)(" Thus, PacifiCorp must submit evidence showing that its proposed rates are just and reasonable * * * For any change proposed by PacifiCorp that is disputed by another party, PacifiCorp still must show, by a preponderance of evidence, that the change is just and reasonable.").

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1 The Commission should reject PGE's proposed increase to its ROE. Staff recommends
2 the Commission select an ROE from within Staff's reasonable range of ROEs, which is 9.02 to
3 9.46 percent, with a mean of 9.34 percent. This recommendation is based on the analysis of
4 Staff witness Matt Muldoon, whose range estimate is derived from two separate Three-Stage
5 Discounted-Cash-Flow (DCF) models, which are the models the Commission has traditionally
6 favored for ROE analysis. Staff also employed two simpler models to check the reasonableness
7 of its findings: a Single-Stage DCF or Gordon Growth Model and a Capital Asset Pricing Model
8 (CAPM).[5] Notably, the ROEs proposed by AWEC and CUB fall within Staff's range at 9.25
9 percent and 9.2 percent, respectively.[6]
10 Interestingly, no analysis supports PGE's requested 9.65 percent ROE as PGE seeks an
11 ROE well below the range of reasonable percentages determined by their own witnesses.[7]
12 Instead, it appears PGE's selection of 9.65 percent is arbitrary, apparently selected as a
13 percentage that might be more acceptable stakeholders, and possibly the Commission, than what
14 is indicated by PGE's analysis. Staff rejects the idea of using an arbitrarily selected percentage as
15 the ROE and recommends the Commission select an ROE supported by multi-stage modeling
16 previously relied on by the Commission. Further, as PGE has apparently concluded that its ROE
17 modeling that resulted in a range of ROEs between 10.25 and 11.25 percent is too high to be
18 useful for this ratemaking proceeding, Staff will not repeat its critique of PGE's analysis in this
19 brief.
20 PGE challenges some specific elements of Staff's ROE analysis, but generally, PGE's
21 attacks do not get at the core of Staff's analysis underlying Staff's recommended range of
22 reasonable ROEs. PGE argues Staff: (1) inappropriately excludes utilities with any merger and
23 acquisition activity within the last five years from its cohort of peer utilities, (2) inappropriately
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25 [5] Staff/400, Muldoon/9; Staff/2800 Muldoon.
26 [6] Staff/2800, Muldoon/18-19.
[7] Staff/2800, Muldoon/19-20.

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1 uses a geometric mean rather than arithmetic mean in the capital asset pricing model (CAPM)
2 used to check the reasonableness of Staff's multi-stage DCF results; 3) relies on an arbitrary
3 averaging methodology and a multi-month duration that is not reflective of current stock prices,
4 as required by the DCF model; 4) relies on annual dividend payments, which is inconsistent
5 with how utilities actually pay dividends and delays the timing of payments to investors; 5) does
6 not reflect other ways that companies can return cash flows to investors, such as stock buy
7 backs; and 6) uses peer companies' book capital structure rather than their market value capital
8 structure for the Hamada adjustment.[8]

9 PGE's objection regarding Staff's choice of proxy companies has no real impact on the
10 question presented to the Commission. Staff testified that substituting PGE's proxy companies
11 for those used by Staff would result in a lower range of ROEs.[9] Meaning, even assuming PGE is
12 correct about Staff's peer screening, correcting it to select peer companies more like those
13 selected by PGE would not support PGE's proposed ROE.

14 PGE's argument regarding Staff's use of a geometric mean for its CAPM analysis is
15 similarly unavailing. For more than 20 years, the Commission has used the CAPM as a check on
16 the reasonableness of the range determined by more complex models.[10] Staff's own CAPM
17 analysis produced an ROE estimate higher than the range determined by its multi-stage modeling
18 and Staff testified that its CAPM analysis supports an ROE selected from the upper end of
19 Staff's reasonable range. Using PGE's recommended inputs in the CAPM analysis, which Staff
20 did as a sensitivity analysis, produces an ROE estimate of 10.3.[11] As noted above, PGE itself has

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22 [8] PGE/2900, Figuero-Liddle/20.

[9] Staff/2800, Muldoon/13.

23 [10] *See e.g., In the Matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, UE 374, Order No. 20-437 (December 18, 2020) ("This Commission has primarily relied upon
24 the multi-stage DCF model in determining a reasonable range of ROE, and in this case we are not persuaded to depart from that approach. In this case, we will also consider the results of the
25 CAPM and risk premium models presented by the parties to confirm the reasonableness of that range and of the ROE authorized in this case.") (Citations omitted.)
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[11] Staff/2800, Muldoon/33.

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1 chosen to not rely on its own ROE modeling that produced a range of 10.25 to 11.25 percent. It
2 is unclear why PGE thinks it is appropriate that Staff should alter its own ROE estimates based
3 on modeling and results like those apparently abandoned by PGE.

4 In any event, the Commission itself has adopted the use of a geometric mean for CAPM
5 analysis, concluding "[a] geometric average should be used to derive the market risk premium
6 when CAPM is focused on a holding period greater than one year."[12] Further, Staff questions
7 PGE's vehemence regarding the appropriateness of using a geometric mean to determine the risk
8 premium in a CAPM analysis. Notwithstanding all the academic references PGE cites, not all
9 regulatory agencies agree that only the arithmetic mean may be used in CAPM analysis. For
10 example, in a 2024 order, the Indianna Public Utility Commission concluded neither the
11 geometric nor arithmetic mean was clearly superior to the other for CAPM analysis:

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> The only remaining major issue in controversy between the various experts utilizing the CAPM in this Cause relates to the use of arithmetic or a geometric mean for calculating the growth rate. While both Mr. Brennan and Dr. Lewellen argue for use of the arithmetic mean, citing numerous leading authorities for that proposition, Mr. Bolinger prefers use of the geometric mean, although conceding during cross-examination that both methods have advantages. This Commission has recently had occasion to address in detail this specific controversy. (See In Re Indiana cities Water Company, Cause No. 39166.) There we determined that neither the arithmetic nor the geometric mean is so clearly more appropriate for use in the CAPM as to exclude consideration of use of the other. We incorporate herein by reference our discussion of that issue in our prior order, since the evidence and expert opinion expressed in both cases are remarkably similar.[13]

19 The Connecticut Department of Public Utility Control was also unable to settle on a clear
20 winner when it came to the use of the arithmetic and geometric mean in a CAPM analysis:
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[12] *In re Pacific Bell Telephone Company, et al.*, UT 43 Order 87–406 (March 31, 1987) (1987 WL 257178). *See also In Re GTE Northwest, Inc.*, UT 113, Order 94-336 (February 22, 1994) (1994 WL 114354) ("The Commission has previously approved the use of the geometric average 'to derive the market risk premium when CAPM is focused on a holding period greater than one year.' * * * The Commission concludes that staff's method of using the geometric average to calculate the market risk premium is more reasonable than the arithmetic average proposed by the company.") (Citation omitted).

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[13] *Petition of Indiana Michigan Power Company*, Cause No. 39314 (November 12, 1993) (1993 WL 602559 (Ind. U.R.C.)).

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> The range of market risk premiums estimates among the three witnesses vary from 4.3% to 8.60%, based on using different debt and equity securities and different time periods for its measurement, and the many interpretations of how it may be measured (geometric versus arithmetic), it is reasonable to conclude that the risk premium approach suffers from so much subjectivity that it can be essentially used to produce whatever outcome is desired * * * Absent any attempt to transform historic risk premium data into meaningful forward-looking estimate, the [Connecticut Department of Public Utility Control] has elected to conduct its own CAPM using both the geometric and arithmetic measures to estimate a reasonable range.[14]

With respect to PGE's next criticism, that Staff's averaging methodology is arbitrary, Staff testified that Staff has used such a methodology for over 15 years, which belies any conclusion it is arbitrary.[15] With respect to PGE's argument regarding timing of dividends, Staff performed sensitivity analysis with the CAPM informed by PGE's criticisms, which produced an ROE estimate of 9.8.[16] Such a result, which would only be used to check the reasonableness of Staff's range, is not so different from Staff's own results (9.7 percent) as to diminish the validity of Staff's own modeling.

Further, in asserting that Staff's reworking of the CAPM model is non-sensical, PGE appears to have completely ignored the workpapers presented by Staff in rebuttal testimony. While it is true that the CAPM model does not directly account for dividend flow, a cursory analysis of Staff's workpapers would show that Staff updated its annualized 30-year S&P 500 market return from 9.08 percent to 10.14 percent by assuming that dividends are reinvested.[17]

With respect to PGE's argument that Staff's analysis does not reflect the other ways companies can return cash flows to investors, Staff testified that PGE's argument on this point made little sense, as it would entail double counting the same money the Company uses for

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[14] *Application of the Connecticut Power & Light Company to Amend Rate Schedules,* 07-07-01, p. 91 (January 28, 2008) 2008 WL 287500 (Conn.D.P.U.C.).

[15] Staff/2800, Muldoon/12.

[16] Staff/2800, Muldoon/33.

[17] Staff/405, Muldoon/1; Staff/2804, Muldoon/1.

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1 payout to investors and for other corporate purposes.[18]

2 Finally, with respect to PGE's concern that Staff's Hamada adjustments were too
3 limited, Staff did perform sensitivity analysis assuming different capital structures. PGE's
4 suggestion that Staff should have tested using a greater ranger of capital structures is relevant to
5 sensitivity testing, not Staff's core analysis. Staff performed adequate sensitivity testing with
6 different capital structures and PGE's criticism is not well taken with respect to Staff's core
7 analysis.[19]

8 In sum, PGE's requested increase to its Commission authorized ROE of 15 basis points
9 from 9.5 to 9.65, is a significant increase, particularly in the context of compounding rate
10 pressures facing customers. Staff notes that increasing electricity costs as requested by the
11 Company can harshly impact energy burdened customers, an observation which is captured in
12 Staff's financial newsfeeds[20] and customer comments regarding PGE's proposed rate increase
13 received by this Commission.[21]

14 PGE's analysis showing a range of ROEs between 10.25 and 11.25 percent is out of touch
15 and does not support PGE's requested ROE. Staff's analysis showing a range of reasonable ROEs
16 between 9.2 and 9.46 percent is well supported and consistent with current financial conditions
17 and Staff recommends the Commission select an ROE from within this range.

18 **Issue No. 2. What should be PGE's capital structure?**

19 Staff recommends the Commission assume a capital structure of 50 percent equity and 50
20 percent long-term debt. This is PGE's capital structure recommendation, too.[22] AWEC, in
21 contrast, recommends the Commission use PGE's 2023 actual capital structure: 44.6 percent
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[18] Staff/2800, Muldoon/32.
[19] Staff/2800, Muldoon/9-10, 26.
[20] Staff/2800, Muldoon/19.
[21] Staff/602, Nottingham; Staff/2601, Nottingham.
[22] Staff/400, Muldoon/5; Staff/3000, Muldoon.

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1 equity and 55.4 percent debt.[23] Staff disagrees with AWEC's proposal.

2 "The Commission is not required to adopt PGE's actual capital structure, but can select an
3 alternative capital structure in consideration with the other factors that affect the cost
4 of capital."[24] For example, in a 2007 PGE rate case, the Commission rejected PGE's request to
5 use its actual capital structure of 53.3 percent equity and instead adopted the Staff and Industrial
6 Customers of Northwest Utilities proposed 50/50 structure, "finding this structure is more in line
7 with comparable companies and PGE's own projected equity level."[25]

8 A 50/50 capital structure is also appropriate here. PGE has a long history, since the
9 Company refloated its Common Stock after becoming independent of Enron, of oscillating
10 around a balanced 50 percent equity layer capital structure.[26] The Company's consistent
11 messaging in PGE's filings with the U.S. Security and Exchange Commission and with
12 customers and investment banks in earnings calls is entirely consistent with the Company having
13 this goal in PGE's financing its utility operations.[27] Moreover, it appears that PGE is issuing
14 common stock on an ongoing basis in equity forwards at the market and in other forms of equity
15 flotation.[28] Staff recommends the Commission adopt the proposed capital structure supported
16 by Staff and PGE.

17 **Issue No. 3. What should be PGE's cost of long-term debt?**

18 Staff recommends a 4.641 percent cost of long-term debt.[29] PGE agrees with Staff's
19 recommended cost of long-term debt.[30] AWEC recommends the Commission adopt a slightly

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21 [23] AWEC/200, Kaufman/2.

22 [24] *In the Matter of Portland General Electric Company Request for a General Rate Revision*, UE 180, Order No. 07-015, p. 28 (January 12, 2007) (Citation omitted.)

23 [25] *Id.*

[26] Staff/2800, Muldoon/7.

24 [27] Staff/2800, Muldoon/7.

25 [28] Staff/2800, Muldoon/7.

26 [29] Staff/500, Pileggi/5; Staff/2900, Pileggi/2.

[30] PGE/2900, Figueroa-Liddle/28.

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1 lower cost of long-term debt of 4.63%. Staff's most recent analysis does not support a reduction
2 to its proposed cost of long-term debt.[31]

3 **B. Rate Base**

4 **Issue No. 4. What method should be used to calculate rate base and to calculate**
5 **depreciation expense?**

6 Staff recommends that the Company calculate its rate base value using a 13- month Test
7 Year Average-of-Monthly Averages methodology including only capital that is compliant with
8 ORS 757.355.[32] For a Test Year ending on December 31, 2025, the average of monthly averages
9 (AMA) rate base calculation proposed by Staff uses a 13-month average for 2025 rate base
10 amounts. This 13-month average is the sum of the monthly balances from December of 2024
11 through December of 2025, less one-half of each December balance, divided by 12.

12 In contrast, PGE uses what Staff calls the pre-test period snapshot (PTPSS) method to
13 calculate its rate base. The PTPSS method of rate base calculation uses values for gross plant,
14 accumulated depreciation, accumulated deferred income taxes, and depreciation expense as of
15 the year ended just prior to the proposed effective date for new rates for capital placed in service
16 before 2024. For capital placed in service during 2024, PGE annualizes these values.

17 Both the PGE and Staff methodologies are designed to comply with the ORS 757.355
18 prohibition on including costs of plant not in service in retail rates. The primary difference
19 between the two methodologies is that PGE's proposed end-of-period methodology benefits the
20 Company by effectively inflating the value of plant that is properly included in rate base, which
21 increases the amount of depreciation expense and return on plant the Company is allowed to
22 recover during the Test Year. In this way, the Company makes up for no recovery of and on
23 plant put in service in 2025.

24 PGE's methodology does not credit customers for the depreciation expense paid during

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[31] Staff/2900, Pileggi/1-2.
[32] Staff/900, Stevens/27-39; Staff/3000, Stevens/21-28.

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1 the Test Year. As such this assumption artificially maintains the value of its plant in service for
2 the purpose of calculating net income required to earn the authorized rate of return, which then
3 makes up for the "loss" of not being allowed by law to place in rates plant added after 2024.
4 In contrast, Staff's methodology does not use the fiction that plant in service does not
5 decrease in net value during the 2025 Test Year. Instead, plant in service is calculated assuming
6 depreciation occurs during the Test Year for the purpose of determining revenue requirements.
7 The average of monthly averages method has long been approved for use in utility rate making in
8 Oregon because an average rate base more closely relates to the operating results during the test
9 year. The use of average rate base tends to preserve the significance of the test period as a basic
10 regulatory tool.[33] Staff assumes that if there was no ORS 757.355, this is how PGE would
11 calculate depreciation expense for the 2025 Test Year as PGE does in fact recognize the
12 declining value of plant in service up to December 31, 2024.
13 PGE asserts that Staff's proposal is mismatched because the Test Year would include
14 2025 depreciation but not new investment. Staff recognizes that the gross plant forecasted under
15 Staff's proposed method would not match with the Company's actual gross plant during the Test
16 Year. However, Staff believes that proposing a method that does so would violate ORS 757.355,
17 as capital additions placed into service after the rate effective date cannot be included in rates.
18 Staff's recommendation is to forecast 2025 rate base only using capital additions that are lawful
19 for the Company to include under Oregon statute.
20 Under Staff's methodology, for **all plant placed in service prior to the end of 2024**, the
21 gross plant balances, accumulated reserves, and depreciation expense are established at average-
22 of-monthly average levels over the 13-month period December 2024-December 2025. And no
23 value is included for plant placed in service after January 1, 2025, depreciating or otherwise.
24 Thus, contrary to PGE's assertion of a mismatch, all pre-January 1, 2024, plant is afforded the
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26 [33] *In re Cascade Natural Gas Corp*., UF 3094, UF 3129, Order No. 74-898 (November 21, 1974) (1974 WL 391913).

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1 same treatment as is all post-January 1, 2025, plant.[34] Furthermore, an argument can be made
2 that PGE's methodology creates a mismatch between gross plant, accumulated depreciation, and
3 depreciation through the annualization of 2024 capital additions.[35]
4 PGE's complaint about a mismatch of benefits and costs has nothing to do determining
5 the appropriate return of and on plant in service as of December 31, 2024, but is due to the ORS
6 757.355(1) prohibition on recovery of costs for plant not in service. Under that statute, "a public
7 utility may not, directly or indirectly, by any device, charge, demand, collect or receive from any
8 customer rates that include the costs of construction, building, installation or real or personal
9 property not presently used for providing utility service to the customer."[36] Essentially, PGE
10 wants to ameliorate the impact of this statute on its earnings by boosting the revenue it obtains
11 on plant that is properly included in rates. Staff understands the reason for PGE's request, but
12 disagrees the Commission is obligated to provide a remedy for the loss of the return on new plant
13 in the Test Year. While Staff understands PGE's frustration in not being able to recover
14 depreciation expense and a return on 2025 plant, the appropriate response is not to charge
15 ratepayers more for plant in service by December 31, 2024, than they would otherwise recover
16 under normal ratemaking.
17 PGE also alleges Staff's methodology violates rules of normalization. PGE's argument
18 that Staff's methodology violates this rule is puzzling because PGE's methodology creates an
19 inconsistency as well. As already noted, PGE cannot stop its plant from depreciating.[37]
20 Accordingly PGE's methodology creates an inconsistency between actual depreciation and the
21 expense included in rates.
22 In a March 24, 2024, ruling, the I.R.S. described the normalization rule as follows:
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24 [34] PGE/1300, Batzler-Meeks/16-17.
25 [35] AWEC/100, Mullins/10-14.
26 [36] ORS 757.355(1).
[37] PGE/2400, Batzler-Meeks/11.

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> A normalization method of accounting was defined in former §167(l)(3)(G) in a manner consistent with that found in 168(i)(9)(A). §1.67(1)-(1)(a)(1) provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.[38]

The issue here is not whether PGE is using an accelerated method of depreciation for computing tax expense and depreciation expense and properly deferring the benefit to later years. Further, the methodology and period for calculating actual depreciation expense and accumulated depreciation for 2025 for PGE for regulatory purposes are not inconsistent. Staff anticipates that the use of accelerated depreciation and deferred benefits will be the same under either PGE's or Staff's method.

Issue No. 5. What amount of Cash Working Capital (CWC) should be included in rate base?

Staff recommends the Commission adjust PGE's cash working capital in rate base by ($22,949,000) to remove the impact of depreciation and amortization expense PGE included in its cash working capital calculation. The Commission has specified that in Oregon, "[c]ash working capital is funds to be used to meet the company's day-to-day expenses. An allowance is made in rate base for cash working capital because of the time lag between the time expenses are incurred--that is, the time service is provided--and the time the customer pays for those services. The company thus must set money aside to pay obligations as they become due. It is allowed to earn a rate of return on that money."[39]

Depreciation and amortization expense are non-cash items and do not fit within the

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[38] IRS Private Letter Ruling, PLR 202426004 (IRS PLR) (June 28, 2024) (2024 WL 3219622).

[39] *In the Matter of Revised Tariff Schedules Applicable to Electric Service Filed by PacifiCorp, dba Pacific Power & Light Company*, UE 76, Order No. 92-1128, August 4, 1992 (1992 WL 501197).

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1 Commission's definition of cash working capital. There is no cash outflow associated with the
2 booking of depreciation and amortization expense. Instead, the cash outlay occurs at the time the
3 capital or other investment is made. That investment (whether it is amortized or depreciated) is
4 already included in rate base and the utility already earns a return on it.

5 Staff acknowledges that in some jurisdictions non-cash items such as depreciation and
6 amortization expense are included in the calculation of cash working capital. In these
7 jurisdictions, depreciation is included in cash working capital to allow shareholders the means to
8 recover the lag between when capital investment is made and when it is recovered. This
9 distinction is explained clearly in a 1991 Federal Communications Commission (FCC) decision
10 explaining why it does not include depreciation and amortization expense in its calculation of
11 cash working capital:

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> While we recognize as the court noted, that depreciation expense relates to a cash expense that occurred at the time of investment, depreciation expense is different from the types of cash expenses included in lead-lag studies in that it does not require a current outlay of cash and thus does not give rise to a need for cash working capital. The Commission has always viewed lead-lag studies as having a single, narrow purpose: determining the amount of cash required for the day-to-day activities of the business. We have not viewed lead-lag cash working capital studies as a generalized method of accounting for each and every timing difference between the outlay of investor funds and the recovery of that outlay from ratepayers, and we see no reason to change our views on this issue. Moreover, we noted that many regulators using the lead-lag approach exclude non-cash expenses on this basis.

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> Throughout this proceeding, carriers have argued that our lead-lag studies deprive investors of full compensation on their investment by failing to consider the time lag between the reduction of the rate base through depreciation of an asset and the recovery from ratepayers of the depreciation expense. As discussed below, we conclude that investors are not denied earnings opportunities by this approach since the time lag is compensated for in the allowed rate of return. * * * That is, in prescribing an allowed rate of return, this Commission uses market-based cost of capital methodologies which incorporate investor's perceptions and requirements, including the investor's perception of the time lag. * * * If depreciation were included in lead-lag studies, and thus, in cash working capital, and thus, the allowed rate of return would, all other things remaining constant, be lower.

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> Our exclusion of depreciation expenses in the lead lag approach is well known: it is a matter of public record and has been in place for over fourteen years. Investors have long been aware of the effect of this approach. They are familiar with the fact that every cash flow has to be adjusted for timing, and thus, to the extent that the

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1 lag involving depreciation recovery exists, capital markets have knowledge of and adjust for the time lag. Markets adjust for this timing through the price of the stock.
2 That is, the price an investor is willing to pay for a share of stock is a function of the timing as well as the size of further dividends. Therefore, investors, knowing
3 that their capital invested in the regulated enterprise will be returned to them with this lag, demand a higher return than they would if the lag did not exist. Again,
4 because we use market-based cost of capital methodologies (which take into account investor perception and requirement) in prescribing a rate of return, the
5 revenue lag of which the carriers complain is reflected in, and compensated for, by our allowed rate of return.[40]

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7 The OPUC expressly dismissed the idea that the calculation of cash working

8 capital in Oregon should compensate investors for the lag between capital investment and

9 recovery in a 1992 order. In that case, the Utility Reform Project challenged the

10 Commission's calculation of PacifiCorp's cash working capital, arguing it was too high in

11 light of the declining level of PacifiCorp's construction costs. The Commission rejected

12 the idea that construction costs had anything to do with calculation of cash working

13 capital:

14 URP's allegation that Pacific has not shown the growth in cash working capital to be justified is also not convincing. The amount included by Pacific is the result of

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16 a "lead/lag" study of the company's needs for cash working capital. The study calculates the relationship between the time of obligation to pay expenses and the
17 receipt of revenues. We conclude that the study is sound and supports the cash working capital amount proposed by the company. Since that basis is sound, a
18 comparison between the proposal and past allowances is not relevant. URP claims that the increase is unjustified because Pacific's construction program has declined.
19 This contention appears to be based on the notion that cash working capital is a function of construction costs. However, the correlation between cash working
20 capital and construction work in progress is not significant. Cash working capital is used to meet operating expenses and the allowance is necessitated by the delay
21 in collecting revenue derived from those expenses. There is no basis for concluding that construction costs are the basis for the cash working capital allowance in this case.[41]

22

23

24 [40] *IN THE MATTER OF AMENDMENT OF PART 65 OF THE COMMISSION'S RULES OF PRESCRIBE COMPONENTS OF THE RATE BASE AND NET INCOME OF DOMINANT*
25 *CARRIERS*, 7 FCC Rcd. 296, 297-99 (F.C.C.), 69 Rad. Reg. 2d (P & F) 1567, 7 F.C.C.R. 296, 1991 WL 638536 FCC 91-324 (October 31, 1991).

26 [41] *In the Matter of Revised Tariff Schedules Applicable to Electric Service Filed by PacifiCorp, dba Pacific Power & Light, supra,* Order No. 92-1128.

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Similarly in this case, investment included in rate base has nothing to do with calculation of cash working capital for Oregon ratemaking. However, as the FCC noted in its order excerpted above, if depreciation and amortization are included in the calculation of cash working capital, it would be appropriate to adjust PGE's authorized ROE downward as described by Staff in testimony.

Issue No. 6. What is the appropriate amount for PGE to recover in rate base for fuel stock?

In Opening Testimony, Staff recommended a total adjustment of ($8.78) million to the Company's initial fuel stock request of $24.2 million. However, when juxtaposed to the Company's revised revenue requirement request in its Reply Testimony, Staff's recommended adjustment is ($6.7) million, because the Company removed $2.1 million in CO2 allowances in its Reply Testimony.[42] Staff's recommends the Commission order PGE to:

1. Use an average balance of fuel stock for the Test Year rather than a year-end balance, which results in an adjustment of ($2,121,786).
2. Perform a financial analysis showing the volume of natural gas held is a prudent business decision.
3. Value natural gas stock at the price that it was purchased for reserve in stock instead of valuing at forward prices.
4. Use the market price of oil, which results in an adjustment of ($1,592,698).
5. Recognize that fewer barrels of oil are going to be used and useful during the time of Beaver conversion, which results in an adjustment of ($2,964,020).[43]

a. Should a year-end or average balance method be used to set the amount of fuel stock?

Staff recommends an average balance method to determine fuel stock in rate base. The

[42] Staff/1400, Dyck/15-16; Staff/3600, Dyck/4-6.
[43] Staff/3600, Dyck/4-5.

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1 value of fuel stock fluctuates largely from month to month. Therefore, choosing a single point in
2 time, particularly the end-of year, to value the investor's investment for the Test Year is not
3 appropriate.[44]

4 The Company reported that they aim to have full storage at North Mist during the months
5 of June and November.[45] This means the beginning storage balance for December is when it is
6 at its highest, which could result in an end-of-the year balance that does not represent the gas
7 storage for the full year. In this case, the Company's year-end balance for 2024 is much higher
8 than the average value. Accordingly, the Company assuming the fuel stock included in rate base
9 should be a year-end balance rather than an average of the year, overstates the amount for which
10 investors should earn a return on.[46]

11 Staff recommends a downward adjustment to rate base to use an average balance for
12 natural gas in storage rather than the year-end balance of $14,544,422.[47]

13 **b. Should PGE be required to conduct an analysis to show economic value of holding a**
14 **minimum of 1.2 million dth of natural gas at North Mist?**

15 Yes, and this is an analysis the Company has not opposed. PGE reported that inventory is
16 maintained at 1,200,000 dth to ensure the Port Westward thermal plant can be dispatched for
17 seven days on storage gas should a gas pipeline disruption occur.[48] PGE earns a return on this
18 gas and has yet to analyze whether there are lower cost options for reliability contingency events
19 (RCE). PGE is allowed to pass through 80 percent of the RCE costs that exceed the RCE
20 forecast in the Net Variable Power Cost Adjustment. Allowing a pass through of costs due to a
21 RCE in addition to a return on stored gas to meet an RCE increases both rate base and risk to
22 customers. This is why Staff recommends PGE conduct an analysis to justify keeping a

23
[44] Staff/1400, Dyck; Staff/3600, Dyck/9-10.
24 [45] Staff/1402, PGE Response to DR 156.
25 [46] Staff/1400, Dyck/14.
26 [47] Staff/1400, Dyck/15.
[48] Staff/1402, PGE Response to DR 156.

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1 minimum balance of 1.2 million dth.

2 **c. Should fuel stock be valued at "actual price at time of purchase" or should fuel**
3 **stock be valued at weighted average cost?**

4 The Company claims that it calculates its natural gas stock by using the weighted average
5 cost of gas (WACOG) and that oil stock is calculated as the lower of market or the WACOG.
6 Staff believes that this valuation is inaccurate for a subset of natural gas stock as this is stock that
7 is not used in a given year because the gas storage balance is not depleted to zero. WACOG is
8 predicated on the notion that gas flows in and out of storage but for a subset of natural gas fuel
9 stock, this is not true as it is a fixed cost so the rationale for using WACOG for all natural gas is
10 not warranted. The Company using the actual price at the time of purchase for natural gas would
11 ensure that investors are provided the precise level of return to which they are entitled.

12 **d. What is the appropriate way to value Beaver oil fuel stock?**

13 PGE's oil stock is for its Beaver generation facility. PGE keeps enough oil to fuel
14 Beaver Plant operations at full load for approximately four to five days during heavy load
15 hours.[49] Oil stock has remained relatively constant since 2018.[50] PGE has been valuing its oil at
16 the same price, $105 per barrel, since at least 2015. However, the price of oil has fluctuated
17 tremendously during that time. In all years since 2018, actual oil prices have been less than $105
18 per barrel.[51]

19 Staff recommends an adjustment of ($1,592,608) to rate base based on revaluing PGE's
20 oil stock at the lower of cost or market.[52]

21 Staff also recommends an adjustment based on what should be a shrinking amount of oil
22 held for the Beaver plant. Beaver is scheduled to be converted to a single source facility in 2026
23

24 [49] Staff/1400, Dyck/19.
25 [50] Staff/1400, Dyck/19.
26 [51] Staff/1400, Dyck/20-21.
[52] Staff/1400, Dyck/21-22.

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and the Company states oil stock will be phased out. The Company does not justify why the amount of oil in fuel stock should be maintained at the same level for the Test Year as was seen in 2018-2023. The Company has stated that it intends to either burn Beaver oil or sell at some point in 2025 or later.[53] Accordingly, including the same amount in rate base for rates effective starting January 1, 2025, as has been used for years is not warranted. Staff recommended the Company reduce its oil stock barrels by half to reflect the upcoming Beaver conversion.[54]

Issue No. 7. What is the appropriate method to determine the amount for PGE to recover in rates for Materials and Supplies?

Staff recommends use of a three-year historical average value based on the last three years of actual data, escalated by the All-Urban Consumer Price Index, to calculate the Company's non-fuel materials and supplies balance for the test year. This results in an Oregon-allocated adjustment of ($19.27 million) to PGE's forecasted balance of $78,500,000.

PGE's forecasted balance has increased approximately 75 percent since 2021, as illustrated in the table below: [55]

Year	Avg. Balance	% Incr.
2021	$44,897,382	
2022	$54,476,845	21.3
2023	$69,325,667	27.3
2024	$78,608,333 **Forecast**	13.4
2025	$78,500,000 **Test Year**	

PGE opposes Staff's proposed adjustment, arguing the value of its current materials and supplies is currently greater than the amount included in rate base in UG 416. PGE argues Staff's

[53] Staff/3600, Dyck/21.

[54] Staff/3600, Dyck/18-22.

[55] Staff/3200, Moore/2-3.

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recommendation to use an average of previous balances escalated by the CPI is inadequate in light of the significant volume of materials and supplies it is currently holding.[56]

PGE's suggestion that the amount the Commission must include in rate base is driven entirely by the amount of materials and supplies PGE chooses to acquire in advance is mistaken. PGE earns a return on these materials and supplies and therefore, has an incentive to build up a supply, no matter the cost. Limiting PGE to a reasonable level (based on an average of actual values), escalated by a reasonable rate of inflation provides a reasonable check on the return PGE is allowed to earn.

Notably, PGE does not forecast an increase in the Test Year balance as compared to 2024, which Staff infers to mean the high rates of inflation PGE saw in 2023 have slowed. This is borne out by the increase in the balance between 2023 and 2024, which is about half as much percentwise as between 2022 and 2023.

PGE also argues that Staff's adjustment includes mathematical errors, namely, Staff used the wrong vintage of All-Urban CPI rate and incorrectly used $78,668,333 for the forecast balance for 2024 in its calculation of the three-year average, rather than the correct balance of $78,608,333.

Staff acknowledges the error in escalation rate and has modified its proposed adjustment from ($19.81 million) to ($19.27 million).[57] However, Staff's error in reporting the forecasted 2024 balance did not affect its adjustment. Staff's three-year average is based on the last three years of actual results, which are 2021, 2022, and 2023. Staff believes this method tracks overall trends to reliable reflect forward conditions and incents prudent practices with respect to acquiring materials and supplies for which a return is included in rates.

C. Revenues

Issue No. 8. What is the appropriate amount of Other Revenue for Joint Pole

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[56] PGE/2400, Batzler-Meeks/42.

[57] Staff/3900, Moore/3-4.

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1 **Attachments and Steam Revenue?**

2 Other Operating Revenue includes several categories of revenue, including rents from 3 leasing Company property (including for pole attachments), steam sales, and revenues from the 4 use of transmission facilities; all recorded in FERC Accounts 450-456. PGE proposes Other 5 Operating Revenue of $46.3 million for the Test Year, which represents a decrease of $5.0 6 million, or 9.7 percent, compared to the booked actuals for 2023. The variance between PGE's 7 actual 2023 expense and its 2025 Test Year forecast is due almost entirely to PGE's removal of 8 $2.92 million in joint pole revenue and $2.06 million in 2023 steam sales revenue. PGE 9 removed these revenues from the forecast based on its conclusion the revenues were anomalous.

10 Staff recommends increasing PGE's Test Year forecast of Other Revenues for the 2025 11 Test Year by $2,514,000. Staff's adjustment includes a $1.6 million increase to forecasted 12 revenue for Steam Sales and a $754,000 increase to the forecast for Joint Pole Revenues, based 13 on a three-year average of actual revenues in 2021, 2022, and 2023. PGE opposes Staff's 14 adjustment, arguing its own method is informed by discussions with counter parties and therefore 15 more reliable.[58]

16 PGE's argument that its method is superior is not supported by the record. Notably, PGE 17 has under forecast Other Revenues in the last three general rate cases:

18 **Table 1 - PGE Other Revenue Forecast vs. Actuals**

19
20
21

Description	UE 319	UE 335	UE 394
Other Revenue Actuals	$ 31,877,530	$ 41,224,471	$ 42,155,091
PGE Forecast	$ 25,840,848	$ 25,327,395	$ 29,345,569
Amount Under-forecasted	$ 6,036,682	$ 15,897,076	$ 12,809,522
Percent Under-forecasted	23.4%	62.8%	43.7%

22 Second, PGE did not provide evidence to support its assertion that its forecast is based on 23 actual conversations with counter parties. But even assuming this is true, there is no guarantee 24 that these conversations make PGE's forecast reliable. Staff's analysis shows the amount of

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26 [58] PGE/1300, Batzler-Meeks/58; PGE/2400, Batzler-Meeks/42-43.

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1 revenue earned is dependent in part on factors other than those that can be easily predicted. For
2 example, PGE received more pole attachment revenue in 2023 than 2021 and 2022 due to joint
3 pole rule violations, and received more steam sales revenue in 2023 due to a counter party's
4 increased demand due to a mechanical failure. Conversations with counter parties prior to 2023
5 would likely not have been helpful in predicting the actual revenues.

6 In light of the variability of revenues, Staff recommends a forecast based on an escalated
7 historic average. And, while Staff agrees it would not be reasonable to use one outlying year as a
8 basis for the forecast, Staff believes it is inappropriate to ignore the outliers altogether as PGE
9 suggests given the relatively tight distribution of the outliers, lack of predictability of when they
10 will occur, and PGE's history of under forecasting other revenues.

11 **D. Compensation**

12 **Issue No. 9. What adjustments, if any, should be made to the following employee**
13 **compensation items?**

14 **a. Labor expense as they relate to FTE count, union expenses, non-union**
15 **expenses, and contract labor expenses?**

16 **i. Wages and Salaries**

17 The amount PGE includes in its 2025 Test Year for labor exceeds PGE's actual 2023 labor
18 spending by $37.75 million and exceeds its 2024 budget by approximately $29.13 million. In
19 terms of the percentage increase, PGE's total forecasted compensation in this rate case represents
20 an 8.7 percent increase over its 2023 actuals and a 6.6 percent increase over its 2024 budget. For
21 the reasons discussed in Staff's testimony and below, PGE's Test Year forecast is unsupported
22 and unsupportable.

23 Staff recommends an adjustment based on its Three-Year Wages and Salaries Model of
24 ($3,808,938) attributable to the Company's base salaries and wages for Oregon, excluding union
25 labor. This amount is allocated ($2,254,891) to O&M and ($1,554,047) to capital. In applying
26 the W&S Model, Staff reversed the Company's proposed shift in forecast dollars of $14 million

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1 from straight-time to contract labor. Staff noted that the Company's proposed shift would
2 effectively shift labor dollars out of Staff's W&S Model, resulting in a smaller downward
3 adjustment than would otherwise be produced by the model. Staff noted that's actual costs over
4 2021-2023 demonstrate a clear trend in which in-house labor costs are increasing, and contract
5 labor costs are decreasing, not vice versa.

6 With regards to union labor, since some contracts were in negotiation at the time of the
7 Company's filing, Staff recommended that union wages be updated to reflect actual negotiated
8 union wage increases if those amounts become known during the course of this proceeding.
9 Other than reversing PGE's proposed $14 million shifting adjustment, Staff did not make any
10 adjustments to contract labor.

11 The Company challenges Staff's proposed adjustments maintaining that its (PGE's) $14
12 million shift from straight-time to contract labor is appropriate and that "Staff's analysis does not
13 review PGE's Total Labor request holistically, instead it looks at two components, specifically
14 straight-time labor and overtime labor…"[59] PGE also states that it "continue[s] to oppose the
15 usage of the Three-Year Wage and Salaries model, while expressing [its] preference for a
16 holistic evaluation of labor requirements."[60]

17 As explained above, PGE's proposal to shift $14 million from straight-time to contract
18 labor would effectively reduce the downward adjustment produced by Staff's W&S Model while
19 artificially inflating PGE's contract labor costs, which have been decreasing since 2021.
20 Contrary to PGE's assertion, it is appropriate to analyze PGE's in-house and contract labor needs
21 separately as has been done traditionally and in consideration of recent historical actuals related
22 to each category.

23 PGE's argument that Staff did not review PGE's labor costs holistically seems to imply
24 that, since Staff didn't analyze and adjust PGE's combined labor costs as a whole Staff has
25

26
[59] PGE/1400, Mersereau–Van Oostrum–Batzler/9 at 1-3.
[60] PGE/1400, Mersereau–Van Oostrum–Batzler/9 at 9-10.

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1 somehow ignored certain aspects of PGE's labor requirements. On the contrary, Staff's proposal
2 provides a reasonable overall labor inclusion while accounting for differences in distinct labor
3 types. Even though Staff continues to believe that certain aspects of labor costs should be
4 separately analyzed, Staff noted in its Opening Testimony that the combined cost of PGE's in-
5 house and contract labor has remained relatively steady over 2021-2023.[61] Since utilities
6 typically use a combination of in-house and contract labor to meet their labor needs, the two
7 labor types tend to have an inverse relationship—when contract labor increases, in-house labor
8 decreases, and vice versa.

9 As shown in Staff Opening Testimony, PGE's recent actuals confirm this to be true over
10 2021-2023—as the Company's in-house labor costs have increased over that time, its contract
11 labor costs have decreased correspondingly. Staff's Opening Testimony included an analysis
12 showing that PGE's contract labor costs experienced an 18 percent decrease between 2021 and
13 2022, and a 22 percent decrease between 2022 and 2023, as reproduced below.

14 **PGE ACTUAL CONTRACT LABOR COSTS, 2021-2023**[62]

15

	2021	2022	2023
Contract Labor	$94,676	$77,974	$60,480
Change		**-18%**	**-22%**

16

17

18 Second, other than reversing PGE's $14 million shifting adjustment, Staff proposed no
19 reductions to PGE's proposal for contract labor. Specifically, Staff removed $14 million from
20 PGE's proposal of $54,082,608, resulting in a total actual inclusion of $40,082,608 for contract
21 labor. This amount represents a decrease of 18.6 percent per year compared to 2023 actuals and
22 is appropriate given the actual annual decreases since 2021, as shown in the previous table. To
23 the extent PGE states that has reversed this trend in 2024, this is not compelling evidence the
24

25 [61] Staff/1200, Yamada/7-8.

26 [62] Staff/1202, PGE's Response to Staff's DR 275; PGE/300, Trpik-Mersereau-Batzler/18, Table 8, April 3, 2024, Errata filing.

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1 Commission should adopt PGE's $14 million transfer of funds for purposes of the Three-Year
2 Wage and Salary Model. The Commission uses a base year three years before the Test Year to
3 ensure the Company cannot game the model by increasing wages immediately before asking to
4 increase rates. This same reasoning applies when considering the impact of PGE's spending on
5 contract labor in the current year.

6 In any event, PGE's argument that combining the analysis of contract labor and
7 compensation for FTEs is a 'holistic" analysis of the labor component of PGE's Test Year
8 misses the mark. A truly holistic analysis includes consideration of the context of PGE's rate
9 request and its impact on PGE's customers. The context of this rate case is that PGE's rates have
10 increased x percent since 2021, and that PGE's actual labor costs increased by only 2.2 percent
11 between 2021 and 2023. Notwithstanding this context, PGE's Test Year forecast for wages and
12 salaries represents an 8.7 percent increase between 2023 and 2025. PGE has not adequately
13 supported its forecast or adequately explained why such a jump in costs is appropriate at this
14 time.[63]

15 Another important factor in a holistic analysis is the impact to ratepayers. Staff Exhibits
16 602 and 2601 include comments of thousands of customers regarding the difficulty they are
17 having paying electricity bills that have increased approximately 40 percent over the last three
18 years. Many of the commenters take issue with the idea of paying more in electricity rates to
19 fund increases in PGE employees' salaries when the customers themselves are living on "fixed
20 incomes." Whether a holistic analysis is one that considers PGE's recent rate increases and the
21 impact on ratepayers, or is as described by PGE, it does not support PGE's Test Year forecast.

22 Finally, PGE's challenge to the Three-Year Wage and Salary model is not well taken.
23 The Commission has a longstanding history of using the W&S Model to determine the
24 appropriate Test Year wage inclusion for in-house labor, and PGE has not demonstrated that
25 present circumstances warrant a departure from the Commission's longstanding methodologies.
26

[63] Staff/1200, Yamada; Staff/3300, Yamada/11.

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1 The use of Staff's W&S Model is not only a longstanding practice, but has repeatedly been
2 affirmed by the Commission as an effective means of calculating the wage inclusion as it
3 "incorporates actual market-based data by using actual historic wages as a starting point, but also
4 ensures the utilities are incented to minimize labor costs by using the All-Urban CPI to escalate
5 historic wages to the test year."[64] "Moreover, Staffs method of sharing the difference between
6 payroll projections equally between ratepayers and shareholders also allows NW Natural some
7 ability to increase wages above the rate of inflation in response to changes in market conditions
8 without allowing unchecked escalation."[65]

9 The circumstances affecting the Company's Test Year wage inclusion are not materially
10 different in this case compared to any other case in which the Commission has previously
11 reaffirmed the use of the W&S Model. Specifically, the Company meets its labor needs with a
12 combination of straight-time, overtime, and contract labor, which may fluctuate from year to
13 year. While the Company insists that it is inappropriate to analyze its different labor types
14 separately, Staff maintains that the use of the W&S Model—which examines straight time and
15 overtime separately from contract labor—is appropriate.

16 **ii. FTE.**

17 PGE proposed 2,903 total FTEs in the Test Year, as summarized in the following table:[66]

18 **PGE'S FTE PROPOSAL**

19
20
21
22
23

Employee Type	FTE
Exempt	1,859
Hourly	371
Officer	10
Union	663
Total	**2,903**

24 [64] *See In re PacifiCorp*, Docket No. UE 116, Order No. 01-787 at 39-40 (September 7, 2001); *In the Matter of PacifiCorp, supra*, 20-473 at 102.

25 [65] *In the Matter of the Application of Northwest Natural Gas Company for a General Rate Revision*, UG 132, Order No. 99-697 (November 12, 1999) (1999 WL 35368386).

26 [66] Staff/1202, PGE's Response to Staff's DR 92.

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1 This figure includes a 100 FTE reduction related to PGE's $11.7 million adjustment for
2 vacancies and unfilled positions.[67] This figure also reflects the removal of 128 FTEs from the
3 Exempt employee category in conjunction with PGE's proposal to shift costs from straight-time
4 to contract labor, which was discussed previously.[68]

5 Staff recommends including 2,817 FTEs in the Test Year. Staff calculated this figure by
6 escalating PGE's actual December 2023 FTE counts by the Company's historical FTE growth
7 rate of 0.7 percent per year through 2025. For the purpose of applying Staff's recommended
8 FTE reduction in the W&S Model, Staff reversed PGE's removal of 128 FTEs related to the
9 Company's proposed shift of costs from straight-time to contract labor. With this change, PGE's
10 unadjusted Test Year proposal is 3,030 FTEs. Staff applied its 2,817 FTE recommendation
11 against this amount, resulting in an overall reduction of 213 FTEs. Using average salaries as
12 adjusted by Staff's Wage & Salary adjustments (discussed previously), Staff's recommendation
13 resulted in an overall adjustment of ($28,057,324), which is allocated ($16,609,936) to O&M
14 and ($11,447,388) to capital.

15 PGE argues that "Staff's proposed reduction of 213 FTEs, which equates to
16 approximately $28 million, is excessive and unfounded."[69] PGE also states that Staff
17 "lack[s]…engagement in meaningful and productive solutions to incorporate contract labor to a
18 Test Year forecast while allowing the flexibility to fill PGE positions[.]"[70] Additionally, PGE
19 states that "Staff and AWEC's proposals, if adopted, would also have detrimental impacts on
20 future rate cases and artificially restrict PGE's ability to directly employ and promote a right-
21 sized workforce at the peril of customers and PGE."[71] PGE also argues that Staff's adjustments
22 are duplicative in some areas. PGE recommends that the Commission reject Staff's and

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[67] Staff/1202, PGE's Response to Staff's DR 266.
24 [68] Staff/1202, PGE's Response to Staff's DR 461, Attachment 461-A.
25 [69] PGE/1400, Mersereau–Van Oostrum–Batzler/9 at 18-19.
26 [70] PGE/1400, Mersereau–Van Oostrum–Batzler/11 at 7-9.
[71] PGE/1400, Mersereau–Van Oostrum–Batzler/11 at 11-13.

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1 AWEC's proposals.

2 PGE's arguments are not well taken. Staff's adjustment is based on historical trends in 3 the Company's in-house FTE counts. Staff's methodology to escalate PGE's actual FTEs based 4 on the recent historical growth rate was adopted previously in Docket No. UE 197.[72] Since 5 Staff's methodology utilizes actual historical figures and has been previously adopted by the 6 Commission, the resulting adjustment is neither excessive nor unfounded.

7 Including both the FTE adjustments discussed here and the Wage and Salary adjustments 8 discussed previously, Staff proposes adjusting PGE's proposed Test Year labor expense and 9 capital by ($31,866,262), allocated (18,884,827) to O&M and ($13,001,435) to rate base.[73] This 10 results in a total of $438.5 million across all labor types (straight time, overtime, and contract 11 labor). This proposal represents an increase of $5.89 million over 2023 actuals, which totaled 12 $432.6 million. In contrast, PGE proposes total Test Year labor of $470.37 million,[74] which is 13 an increase of $37.75 million over 2023 actuals.

14 **b. Annual Incentives.**

15 Staff recommends the Commission adjust PGE's Test Year expense and capital for 16 annual incentives by ($7,692,000), allocated ($4,553,000) to O&M and ($3,138,000) to capital. 17 This reflects the removal of 75 percent of non-officer incentives because 75/25 is an appropriate 18 split of the cost considering the split of benefits between shareholders and ratepayers.[75]

19 For non-officer incentives, the Commission has distinguished between performance- 20 based incentive pay and merit-based incentive pay, with performance-based programs primarily 21 benefiting shareholders from improved financial performance, and merit-based programs 22 benefitting both customers and shareholders through lower costs of service. The Commission

23

24 [72] *In re Portland General Electric*, UE 197, See Order No. 09-020, p. 8 (May 19, 2009).

25 [73] Staff/3300, Yamada/29.

26 [74] PGE/300, Trpik-Mersereau-Batzler/18, Table 8, April 3, 2024, Errata filing.

[75] Staff/3300, Yamada/22-24.

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1 has required a 50 percent sharing of merit-based programs based on the mutual benefit to both
2 customers and shareholders and required companies to absorb 75 percent of performance based
3 non-officer incentive pay based on that increased shareholder benefit.[76] Staff's review of the
4 criteria for award of the non-officer incentives shows the program is primarily, but not totally,
5 intended to benefit shareholders. Accordingly, Staff recommends the 75/25 split.
6 In response to PGE's complaint that Staff's adjustment did not account for inflation or
7 change in headcount, Staff revised its proposed adjustment. Staff first calculated the annual total
8 attributable to each incentive category using the ratio of incentives to salaries reflected in PGE's
9 filing. Staff then applied these percentages to Staff's wage proposal of $371.483 million, which
10 incorporates CPI changes as well as Staff's recommendations regarding FTEs. Consequently,
11 Staff's revised recommendation accounts for changes in inflation and employee headcount and is
12 calculated based on a percentage of employee pay.[77]
13 **c. Capitalized incentives (from 2024).**
14 Staff recommends an adjustment of ($1,872,052) to remove from rate base incentive
15 expense that PGE capitalized between January 1, 2024, and January 31, 2024.[78] As noted above,
16 the Commission has historically excluded from rates 50 percent of merit-based incentives paid to
17 non-officers. To implement this policy, it is necessary to remove any incentives included in
18 CWIP and transferred to rate base.
19 Staff's Opening Testimony on capitalized incentives was based on PGE's response to
20 Staff's DR 265. In that request, Staff asked the Company to identify any incentives included in
21 the Test Year rate base, including whether the included amounts had been "adjusted in
22 accordance with standard Commission practices."[79] In response, PGE stated that its rate base
23
24 [76] Order Nos. 16-109 and 99-697.
25 [77] Staff3300, Yamada/19.
26 [78] Staff/3300, Yamada/27.
[79] Staff/1202, PGE's Response to Staff's DR 265.

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includes $3,744,103 in incentives, and that it only capitalizes merit-based incentives. PGE did not indicate that the stated total had already been adjusted to comply with Commission precedent. Consequently, Staff removed 50 percent of the stated total in line with the standard treatment for merit-based incentives.

PGE testified that Staff "mistakenly conclude[ed] that these incentives were not subject to a pre-filing adjustment, which is incorrect."[80] However, PGE offers no evidence to show that this statement is accurate, nor does it provide any details on the calculation of its alleged pre-filing adjustment. Consequently, Staff is not swayed to modify its Opening Testimony position regarding capitalized incentives. Staff continues to recommend a rate base adjustment of ($1,872,052) related to capitalized incentives.

d. Stock incentives.

Staff recommends the Commission adjust PGE's Test Year expense and capital by ($3,668,000), allocated ($2,171,000) to O&M and ($1,497,000) to capital, to remove 100 percent of stock incentives from Revenue Requirement. [81]

e. Incentives overheads.

Staff did not take a position on this issue in testimony.

f. Costs related to compensation amounts, i.e., payroll takes and key customer management department costs.

Staff recommends an adjustment of ($557,150) to adjust depreciation expense related to Staff's adjustments to capital and an adjustment of ($1,769,978) to payroll taxes.[82]

Issue No. 10. Should the Commission adopt AWEC's recommendation to split director's fees and expense between shareholders and ratepayers?

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[80] PGE/1400, Mersereau–Van Oostrum–Batzler/15 at 12-13.

[81] Staff/3300, Yamada/22.

[82] Staff/3300, Yamada/29.

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1 Staff did not take a position on this issue in testimony.

2 **E. Capital Projects.**

3 **Issue No. 11. Should PGE be required to provide project attestations for plant put**
4 **in service by December 31, 2024?**

5 Yes, Staff recommends the Commission order PGE to use the attestation process outlined
6 in AWEC testimony. Staff disagrees with PGE's proposal to allow PGE to recovery costs that
7 exceed the forecasted costs in PGE's filing. Staff's last round of testimony was filed in
8 September. Neither Staff nor intervenors have the ability to vet the final costs of a project for
9 purposes of producing evidence in this rate case. If the costs exceed what Staff and intervenors
10 assumed for purposes of their examination of the prudence of the projects, those exceeding costs
11 should be addressed in a subsequent rate proceeding.

12 **Issue No. 12. What is the appropriate level for contingency funds? What**
13 **adjustments, if any, should be made to the contingency funds from forecasted**
14 **capital costs?**

15 PGE's forecasted Test Year rate base includes $28,819,359 for project contingency funds
16 for projects that were not yet finished. Staff believes it is unreasonable to assume use of all these
17 contingency funds for the purpose of establishing rate base. Accordingly, Staff recommends
18 adjusting PGE's Test Year rate base forecast by ($28,819,359). To the extent PGE is required to
19 use the contingency funds to complete any of the projects, PGE can include the contingency fund
20 expenditures in its next general rate request.[83]

21 In the alternative, if the Commission adopts AWEC's plant attestation proposal, Staff
22 recommends the plant at issue be included in rates at the lower PGE's actual costs, or the amount
23 forecasted in the Test Year.

24 **Issue No. 13. Has the Company demonstrated that the actual project costs for the**
25 **three transmission and distribution capital investments, Horizon-Keeler BPA #2**

26

[83] Staff/3400, Ball/14-15.

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230kV Line, Shute WJ1 and WJ2 Upgrade, and Shute Feeder Reconfiguration, identified by Staff are prudent?

Staff believes PGE demonstrated the projects were prudent and the investments recoverable, subject to the removal of $7,212,092 from total costs of the three projects for unused contingency funds.[84] In the alternative, if the Commission adopts AWEC's plant attestation proposal, Staff recommends the plant at issue be included in rates at the lower PGE's actual costs, or the amount forecasted in the Test Year.

Issue No. 14. Should the Commission remove forecasted investment for Diesel Particulate Filter Installations that are not complete by the rate effective date?

Yes, Staff recommends the Commission require PGE to provide an officer attestation with the project completion date and actual project cost for each Account Work Order for Diesel Particulate Filter program that was not complete at the time Staff filed its Rebuttal Testimony.[85]

Issue No. 15. What amount should be included in rate base for IT capital additions?

a. Should PGE recover its investments in the Zero Trust Program and EMS upgrade in rate base at the lower of the forecasted amount in PGE's filing ($5.7 million and $4.3 million, respectively), or the actual cost?

Yes, this is Staff's recommendation.[86]

b. Should PGE's recovery of its investments in Network Fitness and CTO Desktop Fitness in rate base be reduced to the three-year average of expenditure?

Yes, and accordingly, Staff recommends an adjustment of ($3,341,209) to PGE's Test Year Expense. Staff's analysis shows that PGE's annual costs for the CTO Desktop Fitness Program range between $2.6 million and $3.6 million, PGE's annual costs for the Network

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[84] Staff/3400, Ball/12-13.

[85] Staff/3400, Ball/18.

[86] Staff/3400, Ball/21.

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1 Fitness program range between $3.0 to $4.5 million, and that PGE consistently makes
2 management decisions to delay or increase finding for these projects each year. Based on this
3 analysis, Staff recommends determining the appropriate amount to include in rate base using a
4 three-year average of actual costs, escalated using the 2.2 All-Urban CPI.[87]

5 **F. Constable and Seaside Energy Storage Projects**

6 **Issue No. 16. Constable Battery Project:**

7 **a. If PGE's Constable investment is not operating prior to the rate effective**
8 **date of this rate case, should the Commission authorize PGE's proposed**
9 **tracker for the Constable project? If so, what if any conditions should be**
10 **included?**

11 PGE testifies that it anticipates its Constable battery energy storage project ("Constable")
12 will be operational by the end of 2024 but asks for authority to "track" the costs of the project
13 into rates with a separate tariff ("tracker") if the plant becomes operational after the rate effective
14 date. Staff does not oppose use of a tracker for PGE's Constable battery energy storage project if
15 the project is not on-line by December 31, 2024, provided: (1) Constable is placed in service by
16 January 31, 2025, (2) PGE provides an in-service attestation, and (3) the gross plant included in
17 customer prices is the lesser of $143 million or actual gross plant.[88] Following the review of
18 surrebuttal testimony, Staff has updated its position on the proper recoverable to $147 million for
19 reasons discussed in the next section. PGE opposes Staff's proposed deadline of January 31,
20 2025, arguing it should have until February 28, 2025, to put the project in service, and opposes
21 any cap on plant that may be included in rate base.[89]

22 Staff disagrees with PGE's proposal to allow a tracker for Constable if it is placed into
23 service after January 31 but before February 28, 2025. As is made clear in testimony, Staff and
24

25 [87] Staff/3400, Ball/19-20.
26 [88] Staff/2400, Dlouhy/18.
[89] PGE/2200, Liddle-Kliever/15.

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customer groups are frustrated by PGE's choice to seek a rate increase six weeks after the effective date of a 16.5 percent increase on January 1, 2024. This is particularly true as PGE's rate case includes proposals for two additional tracked in rate increases for capital projects that will become operational after the requested January 1, 2025, effective date. As AWEC testified, PGE's request to extend Staff's proposed January 1, 2025, cut-off date is "telling," meaning it appears PGE's forecast the project will be in service by the rate effective date is more of a hope than an informed estimate. While Staff does not object to including a one-month buffer for the Constable project to become operational, Staff does object to creating a buffer so large that the tracker is more a single-issue rate case than a part of the GRC.

Finally, Staff recommends the Commission cap the amount that may be included in rate base at the amount forecasted in PGE's Opening Testimony. To the extent PGE's actual costs exceed this amount, no party will have opportunity to vet the costs for prudence. Accordingly, it is appropriate that any recovery of these costs be delayed to a subsequent proceeding that allows stakeholders opportunity to review the costs.

b. If the Constable project is included in rates through a tracker or otherwise, should the Commission adopt Staff's recommended $14 million reduction to rate base?

In Opening Testimony, Staff recommended the Commission disallow a portion of PGE's investment that exceeds cost of the plant represented by PGE in its own bid to maintain the integrity of PGE's Request for Proposals (RFP) process. Allowing PGE to rate base its own project at costs significantly higher than the purported costs in the RFP sends an inappropriate signal to the bidding community and would do little eliminate any incentive for utilities to under bid the costs of a Company benchmark projects in future RFPs.[90] However, following a review of workpapers submitted in response to Staff DR 171, Staff realized that it improperly excluded AFUDC and PGE ownership costs that were considered in the 2021 RFP. After reviewing the

[90] Staff/1700, Dlouhy/21; Staff/2400, Dlouhy/11.

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1 workpapers, Staff revises its position to recommend a $10.1 million reduction to rate base and
2 urges the Commission to adopt it.
3 In response to CUB's concerns that PGE is not sufficiently disciplined when it comes to
4 capital investment, PGE touted its 2023 All-Source Request for Proposal (RFP). PGE noted
5 "[t]his RFP, a competitive bidding process to obtain the least-cost, least-risk clean energy
6 projects, was the company's largest open application process to date. The selections demonstrate
7 a commitment to serving our customers reliable, clean power while working to keep customer
8 prices as low as possible."[91] It is not appropriate to allow PGE to rely on its use of RFPs to
9 contradict concerns its capital investment is not disciplined, but at the same time, allow PGE to
10 recover amounts in excess of those bid into the RFP.
11 **Issue No. 17. Seaside Battery Project:**
12 **a. Should the Commission approve PGE's request for a tracker? If so, what**
13 **conditions should be included?**
14 Staff recommends the Commission reject PGE's proposal to track the costs of the Seaside
15 battery into rates with a separate tariff that would become effective once Seaside is in service. A
16 tracker is a form of single-issue ratemaking. The Commission has stated that "[s]ingle-
17 issue ratemaking provides for the recovery of increases in certain costs without concurrent
18 review of the other elements of the revenue requirement as done in a general rate proceeding.
19 Thus, single-issue ratemaking presents certain risks and shortcomings in the regulatory process,
20 and adds increased risks to customers that rates depart from being cost-based and subject to the
21 normal reviews for overall reasonableness."[92] In connection with Cascade Natural Gas
22 Company's request for a safety investment cost recovery mechanism [SCRM], the Commission
23 stated that due to the shortcomings of single-issue ratemaking, it would require utilities to
24

25 [91] PGE/2200, Liddle-Kiever/37.
26 [92] In the Matter of Cascade Natural Gas Corporation, Application for Safety Cost Recovery Mechanism, UM 2026, Order No. 20-015 (January 15, 2020).

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"demonstrate that circumstances warrant an exception to typical rate recovery, including that the benefits of using an SCRM approach justify its use when compared to the detriments associated with it."[93]

Similarly in this case, PGE must demonstrate that the circumstances warrant its request for an exception to typical ratemaking, which it cannot do. PGE chose to file this rate case (UE 435) six weeks after the rate effective date of its last rate case knowing the Seaside project would not be in service until six months after the UE 435 effective date. No circumstances weigh in favor of allowing PGE both the benefit of a January 1, 2025, effective date for its UE 435 increase and a tracker for a project scheduled to be on-line mid-2025.[94]

Allowing PGE to track the costs of Seaside into rates is particularly unfair given the basis of PGE's Test Year forecast in UE 435. Staff and AWEC have testified regarding their frustration with PGE's decision to use its 2024 budget rather than a base year of actual expenses as the foundation for PGE's forecasted revenue requirement in this case. Both AWEC and Staff note that PGE's actual spending in 2023 supports a significantly lower rate increase than that proposed by PGE in UE 435. PGE's actual expenses in 2024 will be known by mid-2025, the time the Seaside project is scheduled to come on-line. It is unfair to ratepayers to allow PGE to add this significant investment to revenue requirement in mid-2025 without an examination of PGE's actual expense in 2024 to check the reasonableness of PGE's rates.

b. If the tracker for the Seaside Battery Project is approved, should the Commission adopt Staff's recommended $44 million reduction to rate base?

Yes, though Staff has modified the proposed disallowance to a $35.1 million dollar reduction to rate base. Staff recommends the disallowance to maintain the integrity of PGE's RFP process. Allowing PGE to rate base its own project at costs significantly higher than the

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[93] Id.

[94] Staff/1700, Dlouhy/31; Staff/2400, Dlouhy/17-18.

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1 purported costs in the RFP sends an inappropriate signal to the bidding community and would do
2 little eliminate any incentive for utilities to under bid the costs of a Company benchmark projects
3 in future RFPs.[95]

4 **Issue No. 18. What amortization period and treatment should apply to ITCs for**
5 **Constable and Seaside?**

6 **a. Should the ITC reduce rate base within the revenue requirement or be**
7 **amortized through a separate schedule?**

8 It is Staff's understanding that amortizing the ITCs over the life of the asset has
9 approximately the same effect as using the ITCs as a credit against rate base.[96] Staff did not
10 specify whether these be amortized through a *separate* schedule and is amenable to either
11 amortizing the ITCs through a separate schedule over the life of the asset or as a reduction to rate
12 base.

13 **b. Should the ITC be amortized over the life of Seaside or five years?**

14 Staff believes that the ITCs should be amortized over the life of Seaside to reduce
15 intergenerational equity concerns that arise from frontloading the ITC amortization.[97]

16 **c. Should the value of the ITC to refunded to customers be equal to the**
17 **actual value of the ITCs received net of the cost to sell up to 10% of the**
18 **sale value?**

19 Yes.

20 **d. Should the Commission condition a finding that the Constable and**
21 **Seaside projects are prudent on PGE's agreement to opt out of**
22 **Investment Tax Credit (ITC) normalization for ITCs associated with**
23 **Seaside.**

24

25 [95] Staff/1700, Dlouhy/28; Staff/2400, Dlouhy/11.
26 [96] Staff/1700, Dlouhy/37.
[97] Staff/1700, Dlouhy/36-37.

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1 Staff is not sure it is necessary to secure PGE's agreement. The Commission can order
2 the ratemaking treatment for the ITCs. It is incumbent on PGE to ensure there are no
3 normalization violations associated with the ordered ratemaking treatment.

4 **G. Non-labor Operations and Maintenance (O&M) expense**

5 **Issue No. 19. What is the appropriate amount of recovery for PGE's Virtual Power**
6 **Plant (VPP) O&M expense? What adjustments, if any, should be made to the**
7 **amount proposed by PGE? How should VPP items be addressed in the future?**

8 PGE's Virtual Power Plant (VPP) is a collection of distributed energy resources (DER)
9 and flexible load programs that are collectively treated as a single, dispatchable resource.[98]
10 These resources may be customer-owned or Company-owned, meaning that customer-owned
11 solar resources, storage resources, or other investments can feed into the VPP.[99] In UE 416,
12 Staff raised concerns about whether further cost recovery for the VPP was warranted given that it
13 is not part of an acknowledged Integrated Resource Plan. Staff agreed to recommend the
14 Commission allow the Company's proposed $3.4 million in O&M costs into rates through
15 settlement in UE 416.[100]

16 In this case, PGE seeks an incremental $4.0 million in O&M costs related to its VPP,
17 which PGE says is for 13 new employees, program development, and training and
18 development.[101] Staff recommends the Commission adjust PGE's non-labor O&M Test Year
19 expense for the VPP by ($1.5 million). Of this $1.5 million most is for is for one-time start-up
20 costs.[102] Nonrecurring costs are not appropriately included in revenue requirement.[103]

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22 [98] Staff/1700, Dlouhy/9.
[99] Staff1700, Dlouhy/9.
23 [100] Staff/1700, Dlouhy/9.
24 [101] Staff/1700, Dlouhy/9.
25 [102] Staff/1700, Dlouhy/11.
[103] *In re US West Communications*, supra, Order No. 00-191, "Since the utility can be expected
26 to overearn if nonrecurring expenses are covered by the recurring revenues resulting from a rate increase, nonrecurring expenses are eliminated from consideration [in the Test Year]."

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1 In response to Staff's proposed adjustment, PGE argues the expense should not be
2 removed from the Test Year as one-time costs because PGE will need incremental revenue in the
3 Test Year to support the 13 new employees. Staff does not propose a specific adjustment to
4 remove costs of the 13 FTEs because total Test Year expense for FTEs is subsumed into the
5 adjustments to Test Year labor proposed by Staff witness Stephanie Yamada. Nonetheless, Staff
6 does not support an incremental increase in non-labor O&M expense based on the assumption
7 PGE will hire these employees.

8 Staff is concerned that PGE has not made sufficient progress in the development of its
9 VPP to warrant any increase to expense. Staff believes the Company's communication to the
10 Commission about the VPP has been sporadic and unclear and Staff is unable to ascertain the
11 efficacy of the program.[104] Staff finds it difficult to justify the cost-effectiveness of the program
12 without a set of clear narratives justifying the adjustments and demonstrating the ways in which
13 the VPP was used in prior years and ways in which the Company aims to further optimize the
14 VPP in future years.[105]

15 Accordingly, in addition to recommending the Commission deny PGE's request for
16 incremental revenue for this program, Staff recommends the Commission direct PGE to create a
17 standalone annual filing for its VPP, which would include information about the size of the VPP,
18 its costs, a list of resources, and how they have been used.[106] These updates would serve to fill in
19 the gap between the Company's Flex Load Plan filings and should include the following
20 information:

21 • The size in MW of the VPP and the current resource makeup,
22 • A summary of actual incurred O&M costs and capital costs to date to operate the
23 VPP outside of costs to operate customer pilots and programs recovered elsewhere,
24

25 [104] Staff/1700, Dlouhy/9.
26 [105] Staff/2400, Dlouhy/10.
[106] Staff/1700, Dlouhy/15.

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1 • A summary of the customer-sited resources that are part of the VPP,

2 • A summary of the demand response or other customer programs that have been
3 integrated into the VP, and

4 • A list of the programs that are planned to be incorporated into the VPP in the next
5 year with an expected timeline.

6 Prior to this initial filing, Staff recommends that PGE host a workshop to discuss how the
7 ADMS, DERMS, and VPP all work together, and how the Company proposes to separately
8 identify or fairly allocate costs between these three assets.[107]

9 **Issue No. 20. What adjustments, if any, should be made to the amount proposed by**
10 **PGE for non-labor generation O&M?**

11 In Opening Testimony, Staff recommended the Commission adjust PGE's non-labor
12 generation O&M expense by ($2,000,000) to remove expense for a $2 million fee that will not
13 continue after 2026. PGE's 2023 O&M expense for wind plant maintenance was $17.1 million
14 and its 2024 budget was $20.8 million. Staff believes the Test Year expense established for wind
15 maintenance in Docket No. UE 435 (that reflected in PGE's budget) is sufficient to absorb the $2
16 million fee in 2025 and 2026.[108]

17 PGE has agreed to remove $2.0 million from O&M, as the Clearwater-related Custer
18 County fee was determined to be capital and is included within the close-to-plant amounts for
19 Clearwater.[109]

20 Staff also recommends the Commission adjust PGE's Test Year expense for employee
21 health insurance and benefits by ($485,000) to take into account updated information related to
22 escalation.[110] PGE agrees with Staff's recommended adjustment.[111]

23
24
25
26

[107] Staff/1700, Dlouhy/15.
[108] Staff/1000, Anderson/3.
[109] UE 435 / PGE / 1700 Powell – Clark / 7.
[110] Staff/1100, Peterson/18-19; Staff/3800, Peterson/8.
[111] PGE/2500, Mersereau-Van Oostrum – Batzler/2.

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What adjustments, if any, should be made to the amount proposed by PGE for the following corporate support (A&G) items:

a. General A&G category reduction.

Staff's adjustments to A&G expense are detailed below.

b. FERC Account 921 (office supplies).

PGE's Test Year forecast for FERC Account 921 is a 14 percent increase over 2023 actual expense. Staff recommends adjusting PGE's Test Year forecast for office supplies (FERC Account 921) by ($1,780,000) to a more supportable Test Year forecast.[112] With Staff's proposed adjustment, PGE's 2025 forecast for Account 921 is $500,000 over 2023 actual spending.

In its Reply Testimony, PGE opposes Staff's proposed adjustment to its forecasted Test Year expense, stating that the largest single driver and incremental expense related to its proposed $2.28 million increase is $0.75 million to support training and organizational change management for several software solutions (i.e., Maxim, IQGEO, and C2M).[113] In surrebuttal, Staff noted that training for these applications would not be recurring, and that in any event, additional training could be covered by Staff's proposed $500,000 increase over 2023 Test Year actuals.[114]

In its final round of testimony, PGE disagreed with Staff, testifying it will have continued training expense as it "continues to explore IT solutions and plans to implement new systems and solutions, due in part to the rise of AI and other machine learning tools[.]"[115] PGE elaborates that it "expects that our workforce will soon utilize and interact with new AI and other machine learning based tools on a daily basis, and while these tools will introduce efficiencies and new

[112] Staff/1100, Peterson/16-17; Staff/3800/Peterson7.

[113] PGE/1500, McFarland-Lawrence.

[114] Staff/3800, Peterson/6.

[115] PGE/2500, Mersereau – Van Oostrum – Batzler / 26-27.

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capabilities across the organization, PGE expects to incur higher training costs related to these tools for the foreseeable future."[116]

Staff is not persuaded that it is appropriate to include software training expense in anticipation of PGE's exploration of AI solutions. The Commission has stated that "since the utility can be expected to overearn if nonrecurring expenses are covered by the recurring revenues resulting from a rate increase, nonrecurring expenses are eliminated from consideration [in the Test Year']." The Commission's standard for including recurring increases in revenues and expenses in the Test Year is that they are "reasonably certain**"** to occur.[117]

PGE's vague descriptions of possible future training supports is not sufficient to establish with reasonable certainty the need for an additional $750,000 for training in Test Year expense, nor does any other testimony provide adequate support for PGE's total proposed $2.28 million increase over 2023 actuals. Staff recommends the Commission accept Staff's proposed adjustment of ($1,780,000) to PGE's Test Year expense, allowing PGE's forecast to increase $500,000 over 2023 actuals.

c. Directors' and Officers' expense

PGE's Test Year forecast included 50 percent of PGE's forecasted Directors' and Officers' insurance, consistent with the Commission's order that such expense should be shared 50/50 between shareholders and ratepayers. Staff agrees with the 50 percent adjustment but disagrees with PGE's forecast of the total cost. Based on a re-stated forecast of total costs, Staff recommends an adjustment of ($78,925) to Test Year expense for D&O insurance to properly split the premium cost 50/50 between the Company and ratepayers.[118] PGE testified that it accepts Staff's adjustment.[119]

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[116] PGE/2500, Mersereau – Van Oostrum – Batzler / 26-27.

[117] *In re US West Communications, Inc*., UT 125, Order No. 00-191 (August 14, 2000).

[118] Staff/1200, Yamada/20-22; Staff/3300, Yamada/27-28.

[119] PGE/2500, Mersereau – Van Oostrum – Batzler / 35.

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d. **Memberships and Dues**

Staff's recommendation regarding memberships and dues is set forth under Issue No. 26.

Issue No. 21. What is the appropriate amount of recovery for the following insurance expense:

a. **Property insurance expense – What adjustments, if any, should be made to the amount proposed by PGE?**

Staff recommends the Commission adjust PGE's proposed Test Year expense for property insurance expense by ($2,149,000). Staff's adjustment is based PGE's actual property insurance premiums for 2024 and assumes no change for the 2025 Test Year. Although PGE forecasted an increase in property insurance, the increase was not sufficiently supported. PGE's forecast fails to account for the fact that under the post-loss funding model that PGE is now part of, future year property insurance costs will fluctuate based on the losses incurred by PGE as well as other entities in the overall pool.[120]

b. **Casualty Insurance expense – What is the appropriate amount of recovery for General & Auto Liability? What adjustments, if any, should be made to the amount proposed by PGE?**

Staff recommends the Commission adjust the Company's Test Year expense for General and Auto Liability insurance by ($4,413,338).[121] Staff's adjustment is based on using PGE's actual insurance expense for 2024 and escalating with growth factors from Market Scout for each policy line. Staff also proposed adjustments to expense for workers' compensation insurance ($222,020) and cyber liability insurance (230,316) that PGE has accepted.[122]

PGE opposes Staff's adjustment to General and Auto Liability premium expense, arguing

[120] Staff/800, Ball/4-5; Staff/3400, Ball/2-5.

[121] Staff/800, Ball/8-14; Staff/3400, Ball/6.

[122] PGE/2500, Mersereau – Van Oostrum – Batzler / 32.

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Market Scout does not reflect the unique market pressures PGE and other utilities face.[123] Staff disagrees, believing using publicly available third-party data for U.S. Property and Casualty insurance provides an independent view of insurance premium trends as opposed to Company assumptions that are not clearly vetted with third-party input.

In this case, PGE has not presented compelling evidence that its forecast of a 33 percent increase is reasonably certain to occur. Through discovery, Staff requested documentation with references to source data supporting the factors provided by PGE. In response, PGE directed Staff to the written narrative in the company's Opening Testimony, but provided no documentation or references to source data which would support such factors.[124] PGE provided Exhibit 2503C in its Surrebuttal Testimony, which is two slides with little additional context, no dates indicating when this information was presented, or reference material.

Although PGE argues that the particular factors applicable to utilities demand a special forecast for premium increases be used, PGE has not shown that these independent factors result in a year-over-year increase that is unique as compared to other industries. Furthermore, Staff's adjustment starts with the actual premiums for 2024, which were $1.4 million lower than anticipated at the time PGE filed its rate request.[125] To the extent unique factors drive the premiums for property and casualty insurance, these factors would be included in that premium.

c. What adjustments, if any, should be made related to insurance rebates and credits?

Staff's recommended adjustment to casualty insurance expense in 21.b. above includes a $482,020 offset to PGE's forecasted expense for a reasonable forecast of Policy Holder Credits/Bonuses that are based on a three-year average of credits and bonuses received in 2021,

[123] PGE/2500, Mersereau – Van Oostrum – Batzler/32.
[124] Staff/3400, Ball/7-8.
[125] Staff/802, Ball/4.

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2022, and 2023.[126] PGE opposes Staff's adjustment, arguing bonuses are not guaranteed in a particular year and that the amount of any credit may vary.[127] This is true, but an examination of the last three years of actual data shows that one thing is constant, PGE received multiple credits in each year. Staff believes this is sufficient evidence to support the conclusion the credits will be recurring. To properly estimate the credit, Staff believes an average of the amounts received over a three-year period is appropriate.[128]

Issue No. 22. What adjustments, if any, should be applied to the recovery of the following:

a. Revolver fees

Staff recommends no adjustment related to revolver fees.[129]

b. Margin net interest

Staff recommends no adjustment related to margin net interest.[130]

c. Broker fees

Staff recommends no adjustment related to broker fees.[131]

d. Memberships

Staff's recommended adjustment to O&M for memberships is set forth under Is. No. 26.

H. Transmission and Distribution

Issue No. 23. What is the appropriate amount to set in Test Year expense for Routine Vegetation Management O&M? What adjustments, if any, should be made to the amount proposed by PGE?

[126] Staff/800, Ball/15; Staff/3400, Ball/11.
[127] Staff/3400, Ball/10.
[128] Staff/3400, Ball/10-11.
[129] Staff/2900, Pileggi/5.
[130] Staff/2900, Pileggi/5
[131] Staff/2900, Pileggi/6.

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Staff recommends the Commission adjust PGE's forecasted Test Year expense for routine vegetation management of $58.1 million by ($6.2 million), resulting in Test Year expense of $51.9 million, which is the amount included in PGE's Test Year in its last rate case.[132]

PGE's forecasted Test Year expense for routine vegetation management is a 94 percent increase, from $29.2 million to $58.1 million, from the last full year of historical, provable data in calendar year 2023.[133] Staff does not support PGE's proposal to increase the amount included in rates for routine vegetation management. At this time, it is unclear whether PGE's current level of funding is justified and Staff believes increasing PGE's recovery for this category of expense without some examination of the efficacy of PGE's spending is not warranted.[134]

PGE offers many criticisms of Staff's testimony regarding PGE's proposed increase to routine vegetation management, but these criticisms fail to attack this primary rationale for Staff's proposed adjustment. Contrary to PGE's arguments, Staff's adjustment is not based on a conclusion PGE needs only a specific number of crews to perform the maintenance or on a correlation or lack thereof, between spending and tree trimming violations as PGE seems to suggest. Instead, as explained by Ms. Mondragon on cross-examination:

> We've seen large increases from the 2023 actuals, actual verifiable numbers. We see an increase to the test year of 94 percent increase in this program. My recommendation was to, in light of the increase that PGE received in UE 416 and the mechanisms that were established, such as the balancing account and the -- eventually the performance mechanism, it seems prudent to hold at these values until performance can be measured before continuing to throw more money at the -- at the program without first seeing if the program is performing.[135]

Issue No. 24. What is the appropriate amount to set in Test Year expense for Utility

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[132] Staff/1300, Mondragon/8; Staff/3500, Mondragon/11.

[133] Staff/3500, Mondragon/12.

[134] Staff/3500, Mondragon/10-11.

[135] Transcript of October 10, 2024 Evidentiary Hearing, p. 23.

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Asset Management? What adjustments, if any, should be made to the amount proposed by PGE?

Staff recommends the Commission adjust PGE's forecasted Test Year expense of $31.8 million by ($5.9 million), resulting in Test Year expense $25.9 million.[136] PGE's forecasted Test Year expense is 31 percent higher than its actual 2023 expense of $24,300,722 and 23 percent higher than the amount allocated to this category of costs in PGE's UE 416 Test Year, $25,930,199.[137]

PGE has not provided sufficient evidence supporting its proposed increase in spending. Staff testified that "[a]lthough PGE states that the FITNES program and cost of labor are driving the increase, no evidence was provided to support this assertion. PGE mentions an escalating rate of inspection but provides no reasoning for it. No evidence was provided on how PGE arrived at any of their other UAM program numbers. The cost of non-PGE labor and outside services are not supported by any escalation factor or calculation of how they arrived at Test Year amount. Without this Staff cannot determine if the Company proposed amounts are reasonable or prudent."[138]

PGE disagrees with Staff's proposed adjustment, arguing Staff's adjustment is an "attempt to relitigate Docket UE 416. The final order in UE 416 established customer prices for 2024, and PGE appropriately used that as the basis for comparison in this case."[139] PGE also took issue with Staff's use of the All-Urban CPI Price Index as the escalator, arguing that Staff was not considering the actual 2023 ROE in its analysis, and noting PGE provided evidence in support of the 2025 forecast by outlining the specific drivers and cost increases for their FITNESS and correction program.[140]

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[136] Staff/1300, Mondragon/21; Staff/1300, Mondragon.

[137] Staff/1300, Mondragon/18.

[138] Staff/1300, Mondragon/21.

[139] PGE/1600, Cloud-Albi-Putnam/8-9.

[140] PGE/1600, Cloud-Albi-Putnam/8-9.

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PGE's argument that Staff's proposed adjustment is an attempt to relitigate UE 416 is not well taken. The rates in that docket were the result of a settlement. Staff supported the stipulation on the ground it resulted in overall rates that were just and reasonable. Neither Staff nor any party agreed that the amount PGE assumed for its Test Year or 2024 budget was the "correct" amount.

As noted by Staff in its testimony, Staff used the most recent set of verifiable historical numbers, the 2023 actual expenses. Staff did not use PGE's 2024 budget as these numbers are not audited or verifiable – meaning, Staff cannot know if PGE's budgeting was efficient or even if PGE will actually spend what it budgeted.

PGE's challenges to Staff's use of escalators and failure to take PGE's 2023 ROE into account are similarly unavailing. The All-Urban CPI measures price changes in a fixed market basket of goods and services in categories, generally including housing, apparel, transportation, medical care, recreation, education, and others to urban consumers. Staff has consistently found the All-Urban CPI is a reliable and appropriate source for escalation and believes consistently using this methodology eliminates "forum shopping" for the most favorable inflation escalator on a case-by-case basis.[141] With respect to PGE's 2023 ROE, it is unreasonable for PGE to ask Staff to assume PGE's expenses in 2023 for UAM were lower than they should have been because PGE earned less than its ROE. It is just as reasonable to assume PGE overspent for its UAM in 2023 which contributed to its earning less than its ROE.

Finally, Staff continues to disagree that PGE provided sufficient evidence to support its requested increase. Staff explained,

> Staff requested a narrative explaining the forecast development process, as well as the workpapers used during the development process. In their response, PGE provided a narrative explanation, again including numeric figures and percentages, but failed to provide workpapers that supported the narrative or gave any quantitative reason for the budget escalation. Instead, PGE pointed to their 2025 GRC T&D O&M workbook, submitted along with Company's Opening Testimony, which Staff had already reviewed and found lacked the details needed

[141] Staff/3500, Mondragon/14.

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> to determine if the proposed Test Year is reasonable. The workbook, although providing Base Year and Test Year values, lacks details regarding how these values were arrived at, nor identifies the escalators or factors applied to arrive at the 2025 forecast. Staff issued an additional request asking the Company to provide support for the numeric values provided in the narrative and explaining that the 2025 GRC T&D O&M workbook did not provide such details. In response PGE, again, pointed to the 2025 GRC T&D O&M workbook. The fact that the Company keeps pointing to, after repeated request for information, a workbook that does not provide the information, leads Staff to question whether the amounts requested were arrived at by actual calculation of supportable data or just target numbers of what the Company would like to recover in rates. Without the requested arithmetic information, Staff cannot confirm any of the narrative information the Company has provided, nor conclude that the Company's proposed Test Year is just and reasonable. Absent this, Staff does not believe that the Company has met the burden of proof to justify their requested increases.[142]

As discussed above, the appropriate standard for establishing an increase in expense is warranted is whether the spending is "reasonably certain" to occur.[143] In this case, Staff cannot ascertain whether the 23 percent increase in spending that PGE forecasted for 2024 occurred, and certainly cannot tell from the information whether the additional eight percent increase that PGE plans for 2025 will occur. In absence of sufficient evidence to establish the reasonably certain standard, Staff recommends the Commission adopt Staff's adjustment limiting PGE's increase to its 2023 actual expense of $24.3 million escalated to a 2025 level of expense of $25.9 million.

Issue No. 25. What is the appropriate amount to set in Test Year expense for Customer Accounts and Service O&M? What adjustments, if any, should be made to the amount proposed by PGE?

Account 908 – Customer Assistance Expense

Staff recommends adjusting PGE's Customer Assistance Expense (FERC Account 908) by ($1,500,000) to reflect a more reasonable forecast of expense for the Test Year, rather than the assumed increase of approximately $2.5 million increase over 2023 actual, which is what PGE's forecast amounts to.[144]

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[142] Staff/3500, Mondragon/15-16.

[143] *In re US West Communications, Inc.*, *supra,* Order No. 00-191.

[144] Staff/1100, Peterson; Staff/3800, Peterson/3-5.

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1 PGE explained to Staff that the drivers for its increase are 1) incorporating Transportation
2 Electrification deferrals into base rates; 2) incorporating Sch 110 Energy Efficiency Customer
3 Service into base rates; and 3) two years of escalations.[145] Staff noted in Opening Testimony
4 that the deferred TE amounts of $750,000 appear to be primarily used to fund O&M costs related
5 to the Company's fleet program and workspace charging stations.[146] Staff noted that PGE had
6 not explained why it is necessary to provide "assistance" to customers regarding electrification
7 of PGE's fleet or why it is appropriate to include expense and materials related to PGE's fleet
8 program in FERC Account 903 for customer assistance expense.[147]

9 **Account 903 – Customer Records and Collections**

10 Staff recommends adjusting PGE's Customer Records & Collections (FERC Account) by
11 ($1,500,000) to reflect a more reasonable forecast for Test Year expense than the increased
12 expense forecasted by PGE.[148] Compared to PGE's actual expense in 2023, PGE seeks a $4.9
13 million increase (18.6 percent) for Account 903 non-labor expense.

14 PGE based its Test Year forecast for FERC Account 903 on its 2024 budget, (which PGE
15 states is based on the Revenue Requirement approved by the Commission in UE 416), and then
16 increased the budgeted amount for inflation and "known and measurable" changes.[149] The most
17 significant of these changes is the additional $2.2 million in amortization expense for
18 Incremental Distributed Standby Generators.[150]

19 As discussed in Dr. Dlouhy's testimony regarding PGE's Virtual Power Plant, Staff is
20 unable to determine the efficacy of PGE's distributed generation pilot program and does not
21 support PGE's amortization of $2 million for the program without greater visibility into the

22
23 [145] Staff/1100, Peterson/10; PGE/1500, MacFarland-Lawrence/11-12.
[146] Staff/1100, Peterson/10.
24 [147] Staff/100, Peterson/10-11.
25 [148] Staff/1100, Peterson; Staff/3800, Peterson/3-5.
26 [149] PGE/200, Batzler-Ferchland/8.
[150] Staff/1100, Peterson/7; Staff/3800, Peterson/4.

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1 VPP.[151] Accordingly, Staff recommends an increase of actual expense, which is a more
2 appropriate level in current economic circumstances.[152]

3 **Issue No. 26. What is the appropriate amount to set in Test Year expense for**
4 **memberships and dues? What adjustments, if any, should be made to the amount**
5 **proposed by PGE?**

6 Staff recommends the Commission adjust PGE's Test Year expense for Memberships
7 and Dues by ($301,984) to remove expense associated with activities conducted by trade
8 associations that ratepayers should not be responsible for.[153] Staff's adjustment is based on
9 typical Commission practice of excluding 100 percent of membership dues related to economic
10 development and civic organizations and 25 percent of membership dues for trade organizations.
11 To develop its proposed adjustment, Staff identified membership expenses for trade
12 organizations, economic development and civic organizations in PGE's Oregon allocated Base
13 Year that fit within the categories above, as well as dues recorded for unidentifiable acronyms or
14 with insufficient descriptions. Next, Staff applied an All-Urban CPI inflation factor to the Base
15 Year amount, resulting in an Oregon escalated 2025 Test Year proposed adjustment of
16 ($301,984).[154]

17 PGE disagrees that it is appropriate to disallow any of the costs for membership in what it
18 has classified as Trade Organizations, arguing these organization directly support utility business
19 and benefit customers and that all the membership dues that are included in its Test Year are
20 necessary for PGE to fully participate in the trade organizations. Staff does not disagree that it is
21 appropriate for PGE to pay 100 percent of the dues owed to trade organizations (rather than only
22 75 percent of them), but Staff's adjustment is not based on the assertion PGE is overpaying for
23

24 [151] Staff/3800, Peterson/5; Staff/1700, Dlouhy/10.
25 [152] Staff/1100, Peterson/6-7; Staff/3800, Peterson/5.
26 [153] Staff/2100, Rossow/6; Staff/4100, Rossow/2.
[154] Staff/2100, Rossow/6; Staff/4100, Rossow/3.

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1 memberships. Instead, Staff's adjustment is based on the Commission's precedent that expense
2 for dues paid to trade organizations such as the American Gas Association and Pacific Coast Gas
3 Association should be split 75/25 percent between ratepayers and shareholders because
4 ratepayers should not have to pay for some of the activities of the trade organizations.[155]
5 In any event, the appropriateness of Staff's adjustment is easily borne out by review of
6 the list of the organizations to which Staff's 25 percent adjustment is applied, including
7 organizations such as the Mortgage Bankers Association, Certified Property Managers, Harvard,
8 Oregon Women Lawyers, Center for Energy Workforce Development, the Latino Corporate
9 Directors Association, and the Society for Human Resource Management.[156] It is questionable
10 that some of these organization benefit ratepayers at all. But, as noted in Staff's testimony, it is
11 not an efficient use of Staff's time to carefully consider the activities of each group to determine
12 a particular cost allocation of the dues owed to each organization. Instead, Staff employes the
13 policy used by the Commission since 1989 of sharing costs of trade organizations 75 percent to
14 ratepayers and 25 percent to PGE.[157]
15 PGE specifically contests Staff's adjustment removing 25 percent of the dues of the
16 Edison Energy Institute (EEI) arguing that PGE had previously removed a portion of the dues
17 related to lobbying.[158] Staff testified that its review of the EEI invoice did not support PGE's
18 assertion as the amount billed in the invoice is the same as the amount recorded in PGE's FERC
19 Accounts for 2023.[159] Staff also notes that the 25 percent adjustment covers more than just
20 lobbying expense and covers other activities such as public relations and promotional activity,
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[155] Staff/4100, Rossow/4-5, quoting *In the Matter of Revised Tariff Schedules filed by NW Natural Gas Company for a General Rate Increase*, UG 81, Order No. 89-1372 (October 19, 1989).

[156] Staff/4100, Rossow/5.

[157] Staff/4100, Rossow/5-6.

[158] Staff/4100, Rossow/6.

[159] Staff/4100, Rossow/6.

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1 which would not be included in any previous PGE adjustment for "lobbying."[160]

2 Ultimately, PGE recommends the Commission reject Staff's adjustment to membership 3 dues on the ground the membership dues "are prudent expenses" and there should be no sharing 4 of Trade Association dues and its assertion that a portion of Staff's adjustment double counts 5 PGE's own deduction of lobbying expenses from the costs of the EEI membership dues. Staff 6 believes PGE's arguments are without merit. As noted above, PGE's insistence that the 7 Commission should allow it to recover 100 percent of its trade association dues is inconsistent 8 with well-established Commission precedent. Further, PGE's assertion that Staff's 25 percent 9 adjustment to EEI dues double-counts an adjustment PGE already made is inconsistent with 10 Staff's review of PGE's FERC accounts and the EEI invoice and makes no sense given PGE's 11 stance that the Commission should allow PGE to recover 100 percent of trade association dues.

12 **I. Taxes**

13 **Issue No. 27. How should Production Tax Credit ("PTC") carryforwards be** 14 **considered in revenue requirement considering that PGE received approval to sell** 15 **PTCs in Docket UP 426?**

16 PGE should record any difference in the value as provided to customers and the 17 discounted value (the amount that PGE will receive for PTCs through sales as they occur) in 18 PGE's property sales balancing account.[161]

19 **Issue No. 28. Should the accumulated deferred income taxes ("ADIT") associated** 20 **with the emergency wildfire and storm deferrals be considered in rate base?**

21 Staff did not provide testimony on this issue.

22 **Issue No. 29. How should the rate base and amortization benefit of the Anderson** 23 **Readiness Center investment tax credits ("ITCs") be considered in revenue** 24 **requirement?**

25

26 [160] Staff/4100, Rossow/7.
[161] Staff/1000, Anderson/8.

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1 Staff did not provide testimony on this issue.

2 **J. Grants.**

3 **Issue No. 30. What is the appropriate amount that PGE should recover for O&M**
4 **costs related to PGE's Federal Grant request for the Grid Edge Computing Grant? What**
5 **adjustments, if any should be made to the amount proposed by PGE?**

6 Staff recommends the Commission adjust PGE's Test Year expense by ($600,000) to
7 remove an amount equal to the $600,000 Grid Edge Computing Grant received by PGE.[162] PGE
8 testifies the Commission should not adopt Staff's adjustment because its own costs for the
9 project for which the grant is obtained will exceed $600,000.[163] PGE acknowledges that it did
10 not forecast these costs in its Test Year expense, but nonetheless asks the Commission to impute
11 them into PGE's requested revenue requirement to offset Staff's proposed adjustment.

12 In its second round of testimony, PGE stated that while the costs were not estimatable at
13 the time of its initial filing, "based on progress to-date in negotiations for the larger grants (e.g.,
14 Hydrogen Hub, Grid Edge Computing, and Confederated Tribes of the Warm Springs), PGE
15 currently expects it will incur approximately $4 million in net non-reimbursable O&M cost share
16 in support of the grants in 2025."[164] Based on this assertion, PGE testified Staff's ($600,000)
17 adjustment is unwarranted.

18 In surrebuttal filed on October 1, 2024, PGE went further, explaining that it now
19 expected to spend $1.7 million for the Grid Edge Computing Project in 2025, of which it
20 anticipated that $737,000 would be reimbursable.[165] Based on its assertion there would be close
21 to $1 million in non-reimbursable costs, PGE urges the Commission to reject Staff's adjustment.

22 Staff disagrees it is appropriate to reject Staff's proposed adjustment on the ground that

23

24 [162] Staff/3800, Peterson/9-10.

25 [163] PGE/2400, Batzler-Meeks/44-45.

26 [164] PGE/1300, Batzler-Meeks/16.

[165] PGE/2400, Batzler-Meeks/45.

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1 other costs that PGE states it now expects to incur in the Test Year will take the place of the
2 removed costs. PGE did not provide evidence to show the prudence of the Grid Edge
3 Computing project, apparently relying on the existence of the grant to justify the investment.
4 Nor did PGE provide evidence to establish it is reasonably certain it will incur this expense in
5 2025.

6 Furthermore, PGE testified that its is pursuing over $300,000 million in grants.
7 Notwithstanding, the only Test Year item related to these grants appears to be $600,000 of
8 expense, the amount of the grant related to the Grid Edge Computing Grant. Staff recommends
9 removal of $600,000 expense as PGE testified the expense is reimbursable.

10 Staff disagrees its proposed adjustment is unwarranted. Notwithstanding the existence of
11 a grant, it is incumbent on PGE to establish the prudence of its decision to proceed with the Grid
12 Edge Computing project. PGE does not even describe the project until its final round of
13 testimony on October 1, 2024. Apparently, PGE believes that testifying there will be a grant to
14 offset some of the costs of a project is sufficient to support the prudence of the project. This is
15 not so.

16 In sum, it appears PGE's initial testimony included $600,000 in its Test Year expense for
17 a project for which it did not yet have estimatable costs, but for which PGE reported it would
18 receive a grant. In its final round of testimony, seven days before the hearing, PGE provided the
19 estimate of the total costs and the grant amount and finally described the project and its purpose.
20 Although PGE states customers will benefit, PGE does not establish that the decision to move
21 forward with the project was prudent given rate pressure on retail customers. In absence of this
22 showing, Staff's proposed adjustment should be adopted.

23 **K. Rate Spread/Rate Design.**

24 **Issue No. 31. What proposed changes, if any, should apply to the generation**
25 **marginal cost study?**

26 Staff recommends no changes, other than those PGE has agreed to in testimony. AWEC

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1 proposed several changes, and PGE agreed to some of them. Staff does not support other
2 proposed changes with which PGE did not agree, including AWEC's proposed changes to the
3 calculation of the cost of energy and capacity and its proposal to assume firm transmission for all
4 energy resources.[166] The holistic approach and outcome from PGE's marginal cost model seems
5 to produce reasonable results given Staff's current understanding of the Company's cost drivers
6 and long-term strategy. AWEC's proposals drastically increase the marginal capacity cost and
7 decrease the marginal energy cost, largely benefitting the customers they represent.[167]
8 That said, Staff believes the current marginal cost study framework does not adequately
9 model the costs imposed by an extremely larger customer with an inflexible load. Staff is
10 concerned that distribution and transmission investments needed to serve new, very large loads
11 are not being identified as a marginal cost to serve the load and that such new load comes with a
12 high risk of stranded assets that would be socialized to all customers if the load does not
13 materialize. Staff does not propose an adjustment in this rate case but does intend to investigate
14 this issue in Docket No. UE 430, *In the Matter of Portland General Electric Company,*
15 *Investigation into New Load Connection Costs*.[168]
16 **Issue No. 32. Should the Commission adopt proposed adjustments to PGE's cap to**
17 **customer class rate increases? If so a cap and/or floor for customer class rate**
18 **increases as a percentage of the overall (or average) increase? If so, what should be**
19 **the parameters?**
20 Staff recommends the Commission adopt a cap equal to 125 percent of the average
21 increase and a floor equal to 89.4 percent of the average increase to mitigate the impact of
22 cumulative rate changes and to promote equity among the rate classes.[169] PGE argues that
23
24 [166] Staff/3000, Stevens/4-6.
25 [167] Staff/3000, Stevens/5.
26 [168] Staff/3000, Stevens/6-7.
[169] Staff/900, Stevens/13; Staff/3000, Stevens/9.

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1 Staff's rate spread bands are too narrow.[170] Staff disagrees.

2 In the face of a large increase such as the one PGE is requesting, and against today's
3 backdrop of increasing affordability concerns, it is both reasonable and within the Commission's
4 discretion to temper rate impacts to customers to balance the interests of the utility investor and
5 the consumer. The narrowing of the spread in range of rate changes to customer classes is
6 necessary to mitigate the impacts of cumulative rate changes and to promote equity among the
7 rate classes. Further, the band proposed here is not too dissimilar to the bands Staff has proposed
8 in recent electric rate cases.[171]

9 **Issue No. 33. Should the Commission adopt PGE's revisions to the Customer**
10 **Impact Offset (CIO) to equalize the distribution charge for lighting schedules?'**

11 Yes. Staff agrees with PGE that the CIO is necessary to temper the range of increases in
12 the rate spread.[172]

13 **Issue No. 34. Should the Commission adopt PGE's proposed increase to its**
14 **residential basic charge?**

15 No. Staff does not believe the increase to the basic charge, on top of the increase in
16 PGE's 2023 rate case, is supported by the important ratemaking concepts of cost causation,
17 gradualism, and equity.[173] As discussed in Staff's Opening Testimony, PGE's basic charge grew
18 by $2 from 2010-2022.[174] If PGE's proposed basic charge is adopted, the basic charge will have
19 grown by $4 dollars in just two years. This translates to a 36 percent increase for single-family
20 customers and a 50 percent increase for multi-family customers in the last two years alone, the
21 most recent increase going into effect a month and a half before the Company filed this case.[175]

22

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23 [170] PGE/2000 Macfarlane-Pleasant/20.

[171] UE 426 Staff/1600, Stevens/37; UE 433 Staff/1500, Stevens/18 and Staff/3800, Stevens/38.

24 [172] Staff/3000, Stevens/10.

25 [173] Staff/900, Stevens/16-22; Staff/3000, Stevens/13-16.

26 [174] Staff/1900 Stevens/20-21.

[175] Staff/3000, Stevens/14-16.

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The speed at which the Company is proposing to change the basic charge is by no means "gradual" compared to the recent history.

Further, although Staff appreciates that PGE provided an analysis of the equity impacts of the basic charge increase, the analysis is ultimately incomplete. All else equal, an increase to the basic charge can be seen as a transfer of income from low users to high users as it is overall a revenue neutral rate design instrument within the residential class. It is important to know the composition of these groups to fully understand the impacts of a change to the basic charge. In PGE's analysis, they do attempt to identify the makeup of low-income customers and energy burdened customers but do not discuss at length who the "winners" of an increased basic charge are.

For instance, PGE's Figure 1 shows that the customers receiving the largest benefit are those consuming over roughly 1,700 kWhs a month. While the relationship between usage and income is not necessarily clear-cut, it is reasonable to assume that customers with very high usage are generally not low-income. It is important to understand the make-up of this group, particularly if the decrease these customers are experiencing is coming directly from an increase on primarily lower income customers. Understanding the full impacts of this change is imperative for deciding the appropriateness of the basic charge increase. The burden of proof is on the utility to demonstrate that its proposed policies do not have disproportionate and inequitable impacts on low-income customers.[176]

Lastly, PGE's current basic charge is nearly exactly where Staff's longstanding methodology of calculating a cost-based basic charge would place it.[177] As such, an increase to the basic charge would over charge customers as the basic charge is meant to reflect short-run marginal costs.

Issue No. 35. Has PGE established that its proposed revisions to the load following

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[176] Stevens/3000, Stevens/16.

[177] PGE/3101, Macfarlane-Pleasant/1-2.

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credit for Schedule 90 are warranted?

No, PGE has not provided a convincing argument that the benefits provided by Schedule 90 to the system justify more than tripling the current load following credit as PGE proposes.[178] If the Load Following Credit is going to be both continued and updated, it should be updated with a value that represents the value that Schedule 90 provides to the rest of the system. At this time, PGE has not provided a convincing rationale for why the flexibility value of a lithium-ion battery is appropriate to use as a benchmark for this benefit.[179]

Further, PGE has not provided sufficient rationale to support the existence of the Load Following Credit at all. The Load Following Credit is effectively a transfer from smaller schedules to large customers served under Schedule 90 to recognize the reduced load-following cost of service Schedule 90 loads. PGE has not provided convincing evidence that the benefits represented by the Load Following Credit are not already represented in rates. Schedule 90's load profile decreases the amount of flexibility reserves needed to be purchased by the utility. As such, the Company's rate base is lower than it would be otherwise. This in turn lowers rates for all customers, including Schedule 90.

Further, because of Schedule 90's high load factor, Schedule 90 customers already pay less generation costs than they would otherwise. Assigning the full flexibility value of a lithium-ion battery to Schedule 90 for its flat load is inappropriate, as the benefits of Schedule 90's high load factor are already reflected in current rates.

Finally, Staff reiterates its concerns that the loads for Schedule 90 do not provide a benefit equivalent to a battery. No equivalence has been shown but rather it is assumed by PGE. Therefore, the updated methodology is unfounded and should not be relied upon. Staff finds it

[178] Staff/3000, Stevens/18-19.

[179] Staff/3000, Stevens/19.

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1 inappropriate to increase the Load Following Credit. Given this unjustified benefit, Staff
2 believes that it may even be warranted to entirely eliminate the Load Following Credit.[180]

3 **Issue No. 36. Should PGE be required to apply Time of Use (TOU) to Schedule 90**
4 **customers?**

5 Staff recommends PGE be required to apply Time of Use (TOU) rates to Schedule 90
6 customers because it is appropriate to align the costs of providing energy to Schedule 90
7 customers with the rates charged for these customers. While there are now two Schedule 90
8 customers and PGE states that both customers have high load factors, this doesn't address Staff's
9 concerns. The cost to procure or generate energy for these customers varies throughout the day
10 and that this may become increasingly relevant as the region transitions away from emitting
11 resources and towards intermittent resources.[181] Further, Staff notes that the intent of a TOU rate
12 is not necessarily to be cost neutral, but rather to align cost recovery with the time-varying nature
13 of electricity generation costs and incentivize customers to move their consumption off the
14 highest cost periods.[182]

15 **L. Transportation Line Extension Allowance**

16 **Issue No. 37. Should the Commission adopt PGE's proposal to make the**
17 **Transportation Line Extension Allowance program a permanent offering? If so,**
18 **what adjustments, if any, should apply?**

19 Schedule 56 is PGE's Commercial Electric Vehicle (EV) Make-Ready Pilot. The pilot
20 currently provides an incentive for the upfront costs of installing EV charging infrastructure for
21 both fleet and non-fleet commercial customers. Approved in 2021, the program will remain
22 open until December 2025 or until available funds have been fully reserved. Fleet participants
23 are eligible if installing at least 70 kilowatts (kW) of EV charging equipment, while non-fleet
24

25 [180] Staff/3000, Stevens/19-20.
26 [181] Staff/2400, Dlouhy/22.
[182] Staff/1700, Dlouhy/47; Staff/2400, Dlouhy/22.

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participants must install at least eight Level 2 charging ports that are intended for residential customers' EV use. A participating fleet customer must ensure the charging equipment is operational for 10 years and adhere to a minimum energy usage agreement.[183]

PGE anticipates the pilot's funds will be fully reserved by August 2025[184] and proposes a modified TLEA to replace, under which a new participant with a minimum 10-year energy commitment of 400,000 kilowatt-hours (kWh) may apply for the TLEA. The customer's incentive would be the lower of:

- Committed 10-year total kWh, multiplied by the service schedule LEA, multiplied by 1.4;
- The participant's line extension cost plus the Make-Ready Cost for the charger equipment and installation; or
- $450,000.[185]

PGE has yet to show a cost-benefit analysis that justifies making the pilot program permanent. PGE's marginal cost comparison finds the incremental revenue from these new customers nearly or just breaking even with the marginal cost to serve.[186] Staff does not recommend adopting a permanent TLA that may not adequately protect other customers from cost shifts. Accordingly, Staff recommends PGE continue to propose Schedule 56 Make Ready Pilot budgets in the Company's TE plan in three-year increments for Commission approval. This avenue allows PGE to continue advancing TE investment while still providing enough safeguards and regulatory review to ensure other customers are not unfairly exposed to cost shifts.[187]

PGE's TE Plan is reviewed in Docket No. UM 2033, which provides a venue for a more

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[183] Staff/1600, Bolton/2.

[184] Staff/1602, Bolton/1, PGE Response to OPUC DR 353.

[185] Staff/1600, Bolton/3.

[186] Staff/1600, Bolton/5.

[187] Staff/1600, Bolton/7.

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1 thorough and rigorous review of TE programs that is also more accessible to other
2 stakeholders.[188] UM 2033 is not a contested case, so the barriers to participation are fewer. For
3 example, NWEC is an important voice for TE planning in Oregon, but did not intervene in this
4 proceeding. The only intervenor in this proceeding to testify regarding the TLEA is
5 ChargePoint, which has a commercial interest in making Schedule 56 permanent.
6 PGE takes issue with Staff's criticisms of the inputs of its cost benefit analysis and
7 Staff's conclusion the analysis does not show a sufficient cost benefit ratio to support making the
8 pilot permanent. PGE's arguments regarding the appropriate inputs to the cost/benefit analysis
9 prove Staff's point. Staff does not think this is the venue for the Commission to pick apart the
10 assumptions used in the analysis and determine whether the TLEA tips over into a cost-effective
11 program or tips under. Neither resolution supports making this generous line extension
12 allowance (up to $450,000) a permanent fixture, and no circumstances warrant making this
13 allowance permanent without review in the docket designed to take up issues such as this. In
14 other words, Staff is not arguing the Commission should reject PGE's proposal for all time,
15 rather Staff recommends taking the issue up in a more appropriate and stakeholder friendly
16 docket.
17 PGE takes issue with using UM 2033 as the vehicle for review of its TLEA arguing it is
18 concerned it will run out of funding before a new Plan is reviewed. PGE acknowledges that it
19 could follow Staff's suggestion and request mid-cycle TE Plan Update to obtain "new
20 incremental ratepayer dollars" for the TLEA as allowed in OAR 860-087-0020(2)(f), but argues
21 the process is inadequate and would take four to five months.[189]
22 PGE has not used the TE Plan Update for this purpose, so PGE's argument the process is
23 inadequate is not compelling. Further, PGE states there is risk the TLEA will run of out funds in
24 August 2025. PGE still has more than 10 months before August 2025, to obtain additional
25
26

[188] Staff/3100, Bolton/12.
[189] PGE/3100, Macfarlane-Pleasant/21.

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1 funding.[190]

2 **M. Transportation Electrification & PGE Fleet**

3 **Issue No. 38. How much should PGE recover for the following customer-related**

4 **transportation electrification items?**

5 **a. UM 1811 pilots rate base**

6 Commission Order No. 19-385 established a maximum spending level for the UM 1811

7 pilot programs. Staff recommends removal $352,000 for rate base investment that exceeded the

8 caps.[191] In response to Staff's recommendation, PGE argues the budget cap in Order No. 19-385

9 on capital expenditures does not apply to overhead and allocated costs and that they could not be

10 forecast for budgeting purposes.[192] Staff disagrees.

11 Order No. 19-385 includes a summary of "maximum allowable costs," that may be

12 recovered from customers and specifies "any excess costs shall be borne by PGE and not its

13 customers."[193] Under the order "Maximum allowable costs are composed of direct O&M costs

14 and overnight capital costs from the pilot. Indirect costs such as interest on expenses and capital

15 carrying costs (e.g., interest during the construction period, property taxes, income taxes,

16 salvage, return requirements) related to the overnight capital costs, franchise fees, OPUC fees,

17 and uncollectibles are not included in the maximum allowable costs."[194]

18 The Company's assertion overhead and allocated costs are "indirect costs" and not

19 subject to the cap is incorrect.[195] PGE's argument is without merit. The list of indirect costs in

20 Order No. 19-385 is specific and would not apply to the costs at issue here.

21

22 [190] Staff/1602, PGE Response to Staff DR 353.

[191] Staff/2200, Shierman/3; Staff/3200, Shierman.

23 [192] PGE/1500, MacFarland-Lawrence/30-32.

24 [193] In the Matter of Portland General Electric Company, Application for Transportation Electrification Programs, UM 1811, Order No. 19-385, Appendix A, pp. 3-4 (November 7,

25 2019).

26 [194] *Id.*, p. 4.

[195] PGE/1500, Macfarland-Lawrence/31.

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1 PGE's second argument, that the costs were too difficult to forecast, does not change the
2 fact the Commission approves a budget in the TE Plan to ensure the spending on Transportation
3 Electrification is commensurate with the benefits. PGE cannot avoid the limitations put on TE
4 spending on the ground it is too hard to predict costs.

5 **b. Electric Island rate base**

6 Staff recommends the Commission disallow $1.4 investment in Electric Island, which is a
7 joint venture heavy-duty vehicle public charging site on Swan Island.[196] The Commission
8 approved PGE's tariff Schedule 53 on June 15, 2021, under which PGE may contribute or co-
9 develop heavy-duty Electric Vehicle Charging infrastructure for the purpose of providing
10 opportunity to better understand grid impacts from heavy duty Electric Vehicle charging rates
11 and other purposes. PGE's Schedule 53 provides "[u]pon request from a Customer, the
12 Company will contribute a portion of the project development costs including costs related to
13 investments behind the customer meter[,] and "[p]rior to receiving service under this schedule,
14 the Customer and the Company must enter into a written agreement, signed by the Customer."
15 However, PGE executed a contract with an EV manufacturer for Electric Island on
16 September 15, 2020, committing the Company to make these expenditures before the
17 Commission approved Schedule 53 nine months later on June 15, 2021. PGE's decision to give
18 its customer a subsidy was not pursuant to any tariff and other ratepayers should not be required
19 to bear the costs of these pre-tariff expenditures on the construction of a charging site.

20 **c. TE database rate base**

21 Staff recommends the Commission remove $177,000 from PGE's Test Year Rate Base
22 because PGE has not provided sufficient evidence to show it was a prudent investment.[197] Any
23 need or justification for a capital expenditure to avoid using separate databases for some TE data
24 was never approved by the Commission or communicated to Staff before this investment was

25
[196] Staff/3200, Shierman/6-7.

26
[197] Staff/2200, Shierman/3-8; Staff/3200, Shierman/3-16.

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1 uncovered through discovery in UE 416. PGE claims this integration will save labor in TE
2 reporting. PGE has not provided evidence that the difference in labor cost is greater than the cost
3 of the capital expenditure.[198]
4 PGE already had a corporate database that can house TE data. PGE has shared this data
5 with Staff over the years, before making capital expenditures on the TE Database, and Staff has
6 been able to analyze this raw data without the need for a specialized database. PGE has not been
7 able to demonstrate the TE Database provides a substantial marginal benefit over its existing
8 information systems.[199]
9 **d. Line extension rate base amounts related to customer TE projects from**
10 **2019 to 2023.**
11 Staff recommends the Commission decrease rate base by $1.1 million for excess Line
12 Extension allowances paid to customers based on unreasonably high load estimates.[200]
13 PGE opposes Staff's adjustment, arguing PGE's site load forecasts combined EV load with
14 building load, Staff does not consider when the allowance calculation exceeds job cost, at least
15 one calculation included other site load, Staff's use of a capacity factor of four percent is
16 inappropriate, and PGE cannot change the forecast in the middle of the project.[201] Only one of
17 PGE's arguments has merit.
18 First, in every site load forecast Staff has reviewed for EV charging sites, the EV
19 chargers have always had a separate line for the chargers' nameplate capacity. PGE has not
20 provided an example where the charger and building load were combined. Even if they are
21 combined in some instances, Staff believes PGE has sufficient familiarity with EV chargers to
22 make reasonable estimates for load.[202] With respect to PGE's suggestion that instances when the
23
24 [198] Staff/2200, Shierman/7.
25 [199] Staff3200, Shierman/9.
26 [200] Staff/3200, Shierman/18-19.
[201] PGE/1500, MacFarland—Lawrence/27-29.
[202] Staff/3200, Shierman/35.

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LEA has been less than the job cost will offset any overpayments, PGE did not provide evidence to prove this assertion.[203] With respect to PGE's argument that Staff incorrectly considered site load for one of the excessive LEA projects that Staff identified, Staff agrees and has removed this LEA, plus another, from its LEA adjustment.[204]

With respect to PGE's argument Staff's use of a capacity factor of four percent is inappropriate, that number is consistent with both Staff and PGE's observations shared in UE 416 and UM 2033.[205] In this proceeding, PGE asserts a capacity factor of five percent for private sites and 14 percent for public sites is appropriate. However, these new ratios are load factors not capacity factors. The load factor has a different denominator: maximum instantaneous use in kW derived from observed demand. The capacity factor's denominator is maximum potential energy use in kWh derived from the site's nameplate capacity. The load factor is inherently a higher percentage than a capacity factor, but it means a different thing.

PGE's load factor needs to be converted into energy deliveries, a conversion that requires some assumptions about how maximum demand deviates from average demand. PGE does not appear to be performing this conversion properly. Instead, PGE has been adjusting each site's nameplate capacity in a variety of ways and does not show a consistent conversion from an instantaneous demand metric to an energy metric. This raises questions about why PGE uses a forecasting method that requires such added complexity. When a customer applies for new service, PGE has the nameplate capacity but does not yet have any observations of that customer's maximum demand.[206]

PGE's fifth argument, that it is inappropriate to change the site load forecast in the middle of the project, misses the point. PGE's knowledge base is sufficient to allow it to make

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[203] Staff/3200, Shierman/35.
[204] Staff/3200, Shierman/35.
[205] Staff/3200, Shierman/36.
[206] Staff/3200, Shierman/36.

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1 reasonably accurate forecasts. But the evidence indicates PGE has overestimated the load of
2 customers installing EV charges and therefore, the appropriate LEA. An adjustment is required
3 to ensure other customers are not inappropriately subsidizing customers with EV chargers.

4 **e. TE plan and program development expense**

5 Staff recommends the Commission reduce PGE's Test Year expense by the amount set
6 forth at Staff/3200, Shierman/21, lines 4-6, to eliminate expense asked for in this proceeding that
7 exceeds the TE Budget for base rate operating expenses approved in Order No. 23-380 in Docket
8 No. UM 2033.[207] OAR 860-087-0020(3)(g)(A) specifies the TE Budget submitted to the
9 Commission must include "A forecast of all expenditures to support transportation electrification
10 grouped by program and/or infrastructure measure," divided into Capital Expenditures and
11 Expenses. The expenses identified Staff/3200, Shierman/21, lines 4-6 exceed those approved in
12 Docket No. UM 2033.

13 In Order No. 23-380 approving PGE's 2023 Plan and Budget, the Commission noted that
14 PGE had not included the administrative cost of TE planning and product design in the draft
15 TE budget even though the Division 87 rules require that electric companies include
16 all planned expenditures that support TE in their TE Budgets.[208] The Commission noted that
17 PGE had updated its TE Budget to include planning and product development activities and that
18 if "PGE has underestimated these administrative costs in the 2023-2025 TE Budget, the
19 Company can use the TE Plan update process before actual expenditures exceed what the
20 Commission approves in this proceeding, which is required under OAR 860-87-0020(2)(f)."[209]

21 Although, as the Commission noted in Order No. 23-380, it is necessary to update its
22 budget before TE expenditures exceed the budget, PGE did not do this. Accordingly, it is
23 appropriate to hold PGE to the spending level approved by the Commission.

24
[207] Staff/2200, Shierman/9; Staff/3200, Shierman/16-12.

25 [208] *In the Matter of Portland General Electric Company*, UM 2033, Order No. 23-280, p. 6 (October 20, 2023) (2023 WL 7108850).

26 [209] *Id.*

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Issue No. 39. For the following fleet related items, what adjustments, if any, should be adopted?

a. PGE EV Fleet Vehicles rate base.

Staff recommends the Commission adjust PGE's rate base by ($24.4 million)[210] to remove costs of electrifying PGE's own fleet done as a stand-alone exercise rather than part of its TE program subject to a TE budget approved by the Commission.[211] This adjustment includes ($2.9 million) for the premature retirement of vehicles. PGE's electrification of its fleet was not included in its TE Plan or budget. To establish it is entitled to recovery of the cost to electrify its fleet, PGE must show the benefits to customers are commensurate with the cost. It cannot do so, in part because of the $20.7 million price tag for private fleet chargers and significant annual O&M expense to maintain them.

For example, PGE notes that if Staff were to include fuel savings, O&M savings, and tax credits in its cost benefit analysis, the purchase of EVs since its last rate case is $59,000 savings. In fact, Staff/3206 included O&M savings of the EVs. However, PGE's assertions regarding the cost/benefit analysis do account for the cost of private chargers. When these costs are included, the $59,000 in savings identified by PGE are swamped by the $20.7 million cost.

b. PGE Fleet EV Charger rate base.

Staff recommends the Commission adjust PGE's rate base by ($20.7 million) for imprudent capital expenditures on private fleet chargers.[212] PGE opposes Staff's adjustment, noting that fleet electrification aligns with Executive Order 20-04, prepares PGE for compliance with the emission rules: Advanced Clean Trucks and Advanced Clean Cars II; and develops learnings that can be shared with customers.[213] PGE's arguments are unavailing.

[210] In Staff's Position Statement, this amount was incorrectly stated as ($831,000).

[211] Staff/2200, Shierman/11-13; Staff/3200, Shierman/22-32.

[212] Staff/3200, Shierman/22-32.

[213] Staff/3200, Shierman/29.

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1 First, the executive order was to state agencies, not electric companies. The directive on
2 the regulation of electric companies to the PUC includes the requirement that support for TE "is
3 reasonably expected to result in long-term benefit to customers." The evidence in this
4 proceeding shows PGE's fleet electrification poses a long-term cost to customers without
5 commensurate benefit.[214]

6 Second, the Advanced Clean Trucks and Advanced Clean Cars II rules apply to
7 manufacturers of motor vehicles, not fleet owners and do not fully go into effect until 2035. To
8 the extent that these emissions rules apply before 2035, they impact the price of internal
9 combustion engine (ICE) vehicles, so they send gradual compliance signals to fleets in the total
10 cost of ownership. The current prices of most ICE vehicles relative to the premium price of EV
11 and the cost of private chargers suggests PGE has been imprudently electrifying too quickly too
12 early instead of identifying what fleet electrification efforts make sense now. This is important,
13 because compliance costs for a dynamic market like TE generally decline over time, rather than
14 increase, because of the time value of money and the changing technology for compliance. PGE
15 has presented no evidence of net savings from early compliance.[215]

16 With respect to the opportunity for specific learnings from the Company's own fleet
17 electrification, PGE has not shared any with Staff that PGE couldn't otherwise learn from
18 participating in customers' fleet efforts through the provision of technical assistance. So, Staff
19 has no reason to believe this is a material benefit. Also, this line of argument implies that PGE's
20 own fleet electrification should be considered a cost to Fleet Partner, PGE's program for
21 delivering support for customers' fleet electrification efforts. This would widen the gap of Fleet
22 Partner's cost-effectiveness without necessarily improving the merits of PGE's own
23 electrification.[216]

24

25 [214] Staff/3200, Shierman/29.
26 [215] Staff/3200, Shierman/30.
[216] Staff/3200, Shierman/30-31.

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1 **c. PGE EV Charger Maintenance expense.**

2 Staff recommends the Commission adjust PGE's Test Year expense for maintenance on
3 its imprudently acquired private fleet chargers.[217]

4 **N. Customer Service Issues.**

5 **Issue No. 40. What other party proposals, if any, related to bill design, and sharing**
6 **of information with customers should the Commission require? If so, should the**
7 **Commission adopt CUB's proposed disallowance related to billing information?**

8 Staff does not oppose CUB's proposals related to bill design and information sharing.
9 Staff did not investigate and does not take a position CUB's proposed disallowance related to
10 billing information.

11 **Issue No. 41. What adjustments, if any, should be made to the amount proposed by**
12 **PGE for non-labor Customer Accounts O&M?**

13 Staff's proposed adjustments to non-labor Customer Accounts O&M are set forth above
14 under Issue No. 27.

15 **Issue No. 42. What adjustments, if any, should be made to the amount proposed by**
16 **PGE for Key Customer Management labor O&M?**

17 Staff did not make a specific proposal related to Test Year expense for Key Customer
18 Management labor O&M.

19 **O. Affordability, Income Qualified Bill Discount and other Environmental**
20 **Justice Issues.**

21 **Issue No. 43. What changes, if any, in response to the company's Energy Burden**
22 **Assessment should be adopted in this docket to PGE's Schedule 18 Income**
23 **Qualified Bill Discount Program discount levels, structure standards?**

24 Although not necessarily in response to PGE's Energy Burden Assessment (EBA) Staff

25

26

[217] Staff/3200, Shierman/22-32

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1 recommends the Commission order PGE to implement a master meter customer component to
2 the Company's IQBD, that includes a reasonable discount to be passed onto Oregon residents
3 housed in master metered dwellings that would otherwise qualify for the IQBD.[218] PGE testifies
4 that it has included a discount program for master-metered family housing in its September 27,
5 2024 filing to update the IQBD.[219] Staff will review PGE's proposed discount in the docket
6 opened for PGE's September 27, 2024, filing.

7 Staff does not support Verde's proposal to modify the IQBD discount tiers in this
8 proceeding. Staff agrees that changes to PGE's IQBD program are appropriate, but in testimony,
9 thought the changes would be more appropriately discussed in a separate docket.
10 Notwithstanding, Staff acknowledges that it is concerned with PGE's lack of urgency with
11 disconnections and arrearages, discussed below, and with PGE's level of engagement with
12 stakeholders. In testimony in this docket, Staff recommended PGE convene Staff and
13 stakeholders to discuss IQBD structure and discount levels, an arrearage management plan
14 and/or forgiveness program for IQBD customers, adjustments to the definition of high usage
15 customers for energy efficiency and weatherization reporting, and other opportunities for
16 refinement.[220] Staff wanted this engagement prior to the time PGE filed a tariff with its proposed
17 changes to the program. PGE did not convene such a meeting.

18 Because the evidentiary stage of this proceeding is over, Staff will not change its position
19 regarding pursuing changes to the IQBD program in UM 2211. However, Staff urges the
20 Commission to direct PGE to work expeditiously with Staff and stakeholders to pursue necessary
21 changes to the program as soon as possible.

22 **Issue. No. 44. What changes, if any, should be adopted regarding post-enrollment**
23 **verification or income verification?**

24
[218] Staff/2500, Ayres/2.

25 [219] PGE/2300, Sheeran-Latu-Neman/12; *PGE Advice No. 24-19, Schedule 18, Income Qualified Bill Discount*, Docket ADV 1645 (Sep. 27, 2024)

26 [220] Staff/2500, Ayres 2-3, 12-13.

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1 Staff recommends the Commission adopt no changes to the current post-enrollment
2 verification process in PGE's IQBD and opposes AWEC's proposal to require the Company to
3 perform post-enrollment verification because it would conflict with Staff's core UM 2211
4 principle to provide low-barrier enrollment options through self-attestation for energy assistance
5 programs.[221] In testimony, Staff noted that high barrier enrollment programs, such as those with
6 income verification, continue to be plagued with participation rates of 13 to 18 percent.[222] Staff
7 does not believe this is the type of program the Commission should be striving for. [223]

8 **Issue No. 45. What changes, if any, should be adopted in this docket to PGE's**
9 **disconnection policies, generally or as related to IQBD customers specifically?**

10 Staff does not recommend the Commission order PGE take specific action related to its
11 disconnection policies in this docket. Staff plans to address policies related to disconnection in
12 UM 2211 to place any appropriate protections in place for the upcoming heating season.
13 However, Staff notes that PGE's assertion that past due allowances and disconnections
14 are consistent with historical trends pre-COVID is concerning.[224] Prior to COVID, PGE offered
15 far less energy assistance than what has been established since the passage of HB 2475 in 2022.
16 Accordingly, the Company's suggestion that there is little need for alarm as arrearages look
17 similar to 2019 levels is concerning. This implies that PGE finds no issue with the fact that the
18 significant investment in low-income assistance related to HB 2475 has had no discernable effect
19 on residential arrears. Further, it implies PGE finds it acceptable to continue to spend a
20 considerable amount of funds on energy assistance programs without seeing any change in
21 arrearage levels. The purpose of HB 2475 was to enable rates and programs that address
22 differential energy burden and improve residential affordability and equity. Two and a half years
23

24 [221] Staff/2500, Ayres/8.
25 [222] Staff/2500 Ayres/8.
26 [223] Staff/2500, Ayres/8
[224] PGE/2300, Sheeran-Latu-Newman/3.

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1 after the implementation of HB 2475, it should be expected to have a different paradigm in
2 customer arrears.
3 While Staff will pursue swift and meaningful near term action in UM 2211 relative to
4 arrearages and disconnection, Staff sees value in the Commission directing PGE to work
5 productively with Staff and stakeholders to implement arrearage relief measures and enhance
6 qualified disconnection protections prior to the UE 435 rate effective date to help ensure the
7 process can move forward smoothly and without having to continue exhaustive dialogue on
8 whether or not there is a problem at all.
9 With respect to disconnection data, Staff has begun grappling with the reality that current
10 disconnection reporting does not provide clarity on cyclical disconnections, and after reviewing
11 how many LI customers used up their two remote waived reconnection charges before May of
12 the calendar year, Staff believes there are potential data gaps that could disguise deeper
13 problems. Regardless though, 2024 (i.e. post-UE 416) disconnections are trending upward both
14 in count and rate from the same time period in 2019, 2022, and 2023.[225]
15 **Issue No. 46. What changes, if any should be adopted in this docket to PGE's**
16 **arrearage policy and fees generally or as related to IQBD customers, specifically?**
17 As noted above, Staff is concerned with the lack of any meaningful indication that the
18 number of customers in arrearages is decreasing even post HB 2475. Staff reiterates that PGE
19 appears to not recognize the urgency of the issues. At minimum, Staff recommends the
20 Commission direct PGE to work expeditiously with Staff and stakeholders in UM 2211 to
21 address continuing arrearage and disconnection levels in PGE's service territory.
22 **Issue No. 47. What changes, if any, should be adopted in this docket to PGE's bill**
23 **due date for residential customers?**
24 Staff did not testify regarding the bill due date for residential customers.
25 **Issue No. 48. What proposals by parties for additional reporting, stakeholder**
26

[225] 2020 and 2021 are excluded because of COVID impacts.

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1 **engagement, or customer engagement should PGE be directed in this docket for**
2 **PGEs IQBD program, disconnections, arrearage or related issues? If required,**
3 **what should be included and the parameters?**

4 Staff recommends the Commission direct PGE to:

5 - Engage with its Community Benefit and Impacts Advisory Group (CBIAG)
6 and Community Action Partners (CAAs or CAP agencies) on additional
7 outreach techniques for reaching IQBD eligible customers;
8 - Engage with CAP agency partners in the presence of Staff to discuss
9 program adjustment opportunities that optimize the lower barrier and
10 timely enrollment for customers;
11 - Monitor, track and report to the Commission a list of IQBD customers
12 with a monthly usage of 2,000 kWh or more; and
13 - Convene Staff and stakeholders to discuss IQBD structure and discount
14 levels, an arrearage management plan and/or forgiveness program for
15 IQBD customers, adjustments to the definition of high usage customers for
16 energy efficiency and weatherization reporting, and other opportunities for
17 refinement.[226]

18 **Issue No. 49. Should there be a rate design change related to any increase in basic**
19 **charge?**

20 Staff opposes PGE's proposed increase to the Residential Basic Charge. This issue is
21 discussed at Issue No. 36.[227]

22 **Issue No. 50. What, if any, proposed adjustments to Schedule 118 allocation**
23 **methodology should be adopted? (IQBD Recovery)**

24 Staff does not propose changes to the Schedule 118 cost recovery mechanism in this
25
26
[226] Staff/2500, Ayres 2-3.
[227] Staff/900, Stevens/16-22.

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1 proceeding but will continue to evaluate creative cost-recovery models that distribute costs
2 equitably across customer classes within the ongoing UM 2211 process.[228]
3 Staff opposes AWEC's proposal to modify the current limit on the Schedule 118 charges
4 from a per site limit to a per customer limit and its proposal to recovery IQBD costs based on
5 revenue rather than load. AWEC's proposal to switch to a limit by customer rather than by site
6 seeks only to shift costs away from large customers, regarding less of the impact on equity.[229]
7 Similarly, AWEC's proposal to allocate based on revenue rather than load will shift costs to the
8 residential class. As noted by PGE, it is unclear that this shift is consistent with HB 2475.[230]
9 **Issue No. 51. Should the Company convert its ductless heat pump program pilot**
10 **program into a fully funded program and increase coordination with ETO?**
11 Staff does not support any modification or adjustment to energy efficiency measures
12 offered by PGE. Staff does recommend the Company be directed to share data with the Energy
13 Trust of Oregon (ETO) on IQBD participant heating type and should include IQBD enrollment
14 data as part of its monthly data sharing with ETO. (Staff/1900, Ayres/41; Staff/2500, Ayres/25.)
15 **Issue No. 52. Should the Company expand weatherization efforts and services,**
16 **amend its schedules to recognize the long term, system-wide cost-efficiencies and**
17 **implement targeted outreach to IQBD customers?**
18 See Staff response to Issue No. 51 above.
19 **Issue No. 53. Should the Commission require PGE to center energy efficiency for**
20 **low-income households in its rate scheme as a condition of any rate increase?**
21 Staff does not support conditioning PGE's rate increase on its agreement to center energy
22 efficiency for low-income customers in its rate scheme.
23 **Issue No. 54. Should the Commission require PGE to implement neutral (i.e., third-**
24

25 [228] Staff/2500, Ayres/19.
26 [229] Staff/2500 Ayres/18.
[230] Staff/2500, Ayres/16-18.

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1 **party) technical support related to rate case "walk-throughs" and other quasi-**
2 **technical stakeholder engagement, in order to appropriately bolster PGE's**
3 **procedural equity efforts, prioritizing this for CBIAG most immediately?**

4 Staff does not recommend that the Commission take this action in a utility-specific rate
5 case. Instead, Staff believes such an action is more appropriate in a general investigation
6 applicable to utilities in addition to PGE as it would provide a better vehicle for stakeholders and
7 utilities to collaborate and explore options.

8 **P. Other issues.**

9 **Issue No. 55. Should PGE's rate filing be rejected due to the following:**

10 **a. Failure to meet requirements of ORS 757.210(1)(a) by not providing**
11 **sufficient evidence that proposed rates are just, reasonable and in the**
12 **public interest; or**

13 Staff agrees with AWEC that it is within the Commission's authority to conclude that
14 PGE failed to carry its burden of proof with respect to its proposed rate increase. In fact, Staff
15 argues PGE has failed to carry its burden of proof with respect to most of PGE's requested
16 increase in O&M expense. PGE's choice to use its 2024 budget as its base year rather than
17 actual costs and revenues in 2023 makes it very difficult to determine whether an increase to
18 revenue requirement for any particular category is warranted. An increase in expense is
19 appropriately include in the Test Year if it is "reasonably certain to occur." Here, it is not even
20 possible to tell whether the annual expense in the base year is reasonably certain to occur, which
21 makes it very difficult to establish whether an incremental increase is warranted.

22 Ultimately, this difficulty should weigh against PGE as it has the burden of proof. It is
23 not appropriate to require Staff and other parties prove that an expense is not reasonably certain
24 to occur. Instead, the burden of proving that these incremental increases are reasonably certain
25 lies with PGE.

26 Staff notes that for the most part, no party has challenged the prudence of the pre-January

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1, 2025, capital investment PGE seeks to include in rate base. Accordingly, Staff does not think a dismissal of the portion of PGE's rate increase related to adding capital investment is warranted.

b. A collateral attack of issues resolved in Docket UE 416?

Any claim this rate case is an inappropriate collateral attack on revenue requirement issues decided in a previous case is meritless. The Commission did not rule in UE 416 that PGE was entitled to a revenue requirement no less than what was awarded in that case, and of course, could not have done so. Further, issues in UE 416 were resolved by stipulations that specify "by entering into this Stipulation, no Stipulating Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other Stipulation Party in arriving at the terms of this Stipulation." Order No. 23-386, Attachments (First, Second, Third, and Fourth Partial Stipulations).

Issue No. 56. Should the Commission adopt CUB's proposed tracker to delay the rate effective date of PGE's rate request?

Staff did not testify regarding this proposal.

Issue No. 57. Should the Commission apply an overall or residential rate cap to address rate shock? If so, what parameters should there be for the rate cap?

In Opening Testimony, Staff testified in favor of a three percent cap on any increase to the residential class as a check on affordability.[231] Because it is not clear how this proposal will impact other rate classes, Staff withdraws its proposal for a hard three percent cap. However, Staff believes it is appropriate for the Commission to use any of the available mechanisms to mitigate the impacts of an increase on customers.

Issue No. 58. Should the Commission adopt CUB's rate shock proposal?

Staff supports mechanisms that can mitigate rate pressure and respond to the statewide call to address the rising rates and energy insecurity faced by increasing numbers of Oregon

[231] Staff/300, Scala.

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1 utility customers.

2 **Issue No. 59. Should the Commission require PGE to amortize the deferral related**
3 **to PGE's Clearwater project starting January 1, 2025?**

4 Although Staff supported starting amortization of the deferral beginning on January 1,
5 2025, Staff's support was premised on an assumption the rate treatment for the plant would be
6 resolved in Docket No. UE 427 prior to the rate effective date of UE 435.[232] Staff notes that the
7 target rate effective date for UE 427 has been delayed to March 1, 2025. Staff believes it
8 appropriate to wait to amortize this deferral until after UE 427 is resolved.

9 **Issue No. 60. What revenue requirement treatment should apply to the reflection of**
10 **ITCs for the Anderson Readiness Center?**

11 Staff did not address this issue in testimony.

12 **Issue No. 61. Should the Commission address PGE's request to modify the**
13 **Renewable Automatic Adjustment Clause (RAAC) to allow PGE to recover costs of**
14 **stand-alone batteries at the transmission level in this docket or in a separate**
15 **investigation?**

16 PGE has asked the Commission to clarify whether costs of stand-alone batteries should
17 be recoverable in the RAAC in four separate dockets and has ultimately dropped its request in
18 each.[233] Staff recommends the Commission address PGE's request in this rate case and deny it.
19 Stand-alone batteries are not "associated energy storage" for purposes of cost recovery under
20 ORS 469A.120(2)(a), which addresses costs to acquire facilities that generate electricity from
21 renewable energy sources and "costs related to associated electricity transmission and costs
22 related to associated energy storage."[234]

23 The Oregon Supreme Court has specified that the goal of statutory interpretation is to

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25 [232] Staff/1700, Dlouhy/49.
26 [233] Staff/2400, Dlouhy/4.
[234] Staff/2400, Dlouhy/4.

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determine what meaning the legislature intended in drafting the statute.[235] When the legislature provides a definition of a statutory term, the Court will use that definition. Otherwise, the Court will "look to the plain meaning of a statute's text as the first step in determining what a particular term means."[236] "[A]s stilted as the approach may sometimes seem, [the Court will] frequently consult dictionary definitions of the terms, on the assumption that, if the legislature did not give the term a specialized definition, the dictionary definition reflects the meaning that the legislature would naturally have intended."[237]

ORS 469A.120(2)(a) provides:

> 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.

The pertinent question here is whether a stand-alone battery that is charged from the grid, rather than charged by a connected renewable resource, is "associated energy storage" for the purpose of recovery of Renewable Portfolio Standard (RPS) related costs under ORS 469A.120(2)(a). "Associated energy storage" is not defined in ORS 469A. Accordingly, it is appropriate to consult the dictionary to discern its meaning. In *Webster's Third International Dictionary*, the first definition of "associate" as an adjective is "1: closely connected, joined, or united with another (as in interest, function, activity, or office)[.]"[238] This plain meaning is completely inconsistent with PGE's assertion stand-alone storage is "associated storage" for RPS-compliant resources under ORS 469A.120(2)(a).

Putting aside the plain meaning of "associated storage" PGE's assertion that stand-alone

[235] *See PGE v. Bureau of Labor and Industries*, 317 Or. 606, 610, 869 P.2d 1143 (1993).
[236] *Id.*
[237] *See State v. Murray*, 240 Or. 599, 604, 136 P.3d 10 (2006).
[238] *Webster's Third New Int'l Dictionary*, unabridged p. 132, (2002).

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1 storage qualifies for recovery under the RAAC is completely at odds with the context of ORS
2 469A. The RAAC allows PGE to cover costs associated with RPS compliance. A stand-alone
3 battery is not RPS compliant as it is charged by the grid rather than a renewable resource.
4 Accordingly, it makes no sense the legislature would intend for utilities to use the cost recovery
5 mechanism authorized by the Commission under ORS 469A.120(2)(a) to recover non-RPS
6 compliant costs.

7 To the extent PGE argues that costs to shape and firm a renewable resource are
8 recoverable in rates under ORS 469A.120(1), the argument is unavailing. The list of expenses
9 that are subject to cost recovery under ORS 469.120(2)(a) is smaller than the list of expenses that
10 are recoverable in rates under ORS 469A.120(1), and costs to "integrate, firm or shape
11 renewable energy sources on a firm annual basis" that are designated as recoverable under ORS
12 469A.120(1) are not included in ORS 757.120(2)(a).

13 **Issue No. 62. Should the Commission open a docket investigating a framework for**
14 **multi-year rate cases?**

15 In Order No. 24-359 issued in Docket No. UG 490, the Commission addressed NW
16 Natural's request that the Commission direct the utility to file a multi-year rate plan in its next
17 rate case and recommendations from other parties to open an investigation into the use of multi-
18 year rate plans so that stakeholders and the Commission could address best practices for such a
19 mechanism outside of the statutory period for reviewing tariffs. The Commission declined both
20 requests. With respect to the investigation, the Commission agreed there is significant work to
21 be done to engage all parties ahead of the adoption of any multi-year rate plan, but was reluctant
22 to devote limited resources of Staff and stakeholders to such an investigation.[239] The
23 Commission directed Staff to submit and present a report at a public meeting in 2025 that
24 addresses the types of multi-year rate plans available, how other jurisdictions have implemented
25

26 [239] *In the Matter of Northwest Natural Gas Company, Request for a General Rate Revision*, UG 490, Order No. 24-259, p. 50 (October 25, 2024).

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1 them, the likely resource commitment, and timeline required to effectively implement multi-year
2 rate plans and concerns raised by stakeholders.[240] The Commission also specified that any
3 stakeholder proposing a multi-year rate plan framework will engage in a robust stakeholder
4 process ahead of the filing to gather feedback on the design and all elements of the framework,
5 as well as any stakeholder concerns.[241]

6 In light of the Commission's order in UG 490, Staff withdraws its recommendation to
7 open a general investigation into the use of multi-year rate plans.

8 **Issue No. 63. Should the Commission require PGE to file a public version of its rate**
9 **increase forecasts, including forecasts contained in Monet updates and bench**
10 **request, that has been designated as confidential?**

11 Yes.

12 **Issue No. 64. Should the Commission require PGE to provide information on**
13 **customer bills showing average cost of electricity in a cents/kwh basis?**

14 Staff does not oppose this proposal.

15 **Issue No. 65. Should the Commission require PGE, when PGE seeks to increase a**
16 **residential rate schedule, to file a plan for how it intends to communicate the rate**
17 **change to residential customers?**

18 Staff is not sure whether this rate case is the appropriate vehicle for a generally applicable
19 requirement related to accessibility.

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[240] *Id.*
[241] *Id.*

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III. Conclusion

For the reasons discussed above, Staff asks the Commission to accept its proposed adjustment to PGE's Test Year and all other Staff recommendations.

DATED this 28th day of October 2024.

Respectfully submitted,

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