

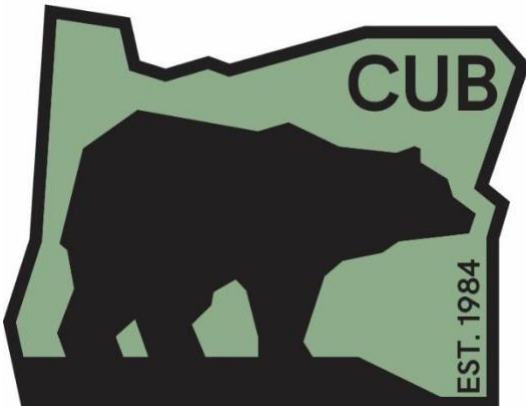
**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 335

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

**REBUTTAL TESTIMONY
OF THE
OREGON CITIZENS' UTILITY BOARD**

August 15th, 2018



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I. INTRODUCTION

1 **Q. Please state your name, occupation, and business address.**

2 **A.** My name is Bob Jenks. I am the Executive Director of the Oregon Citizens' Utility
3 Board (CUB). My name is William Gehrke. I am an Economist employed by
4 CUB. Our business address is 610 SW Broadway, Ste. 400 Portland, Oregon
5 97205.

6 **Q. Please describe your education background and work experience.**

7 **A.** Mr. Jenks' witness qualification statement can be found in exhibit CUB/201, and
8 Mr. Gehrke's witness qualification statement can be found in exhibit CUB/101.

9 **Q. What is the purpose of your testimony?**

10 **A.** In this testimony, we respond to issues raised by Portland General Electric
11 Company (PGE or the Company) in its July 13, 2018 Reply Testimony and make
12 practical recommendations on the remaining issues in this proceeding. While the
13 parties have made significant progress resolving revenue requirement issues, there

1 are a number of policy issues that are unresolved. CUB herein responds to PGE’s

2 Reply Testimony as it relates to the following issues:

- 3 ● Decoupling
- 4 ● Unbundling Smart Grid Investments
- 5 ● 2017 Storm Deferral
- 6 ● Storm Balancing Account
- 7 ● Adding Energy Storage to the Renewable Resources Automatic
- 8 Adjustment Clause (Schedule 122)

II. DECOUPLING

9 **Q. What is your concern about PGE’s proposed changes to its decoupling**
10 **mechanism?**

11 **A.** PGE is proposing four changes to its decoupling mechanism.¹ First, it proposes to
12 eliminate the weather normalization and shift the risk associated with weather variability
13 to customers. Second, PGE proposes to change the 2% cap which limits decoupling
14 adjustments. Third, PGE proposes to discontinue the Lost Revenue Recovery
15 Adjustment (LRRRA). Finally, PGE is proposing to bring most large commercial and
16 industrial customers into the decoupling mechanism. CUB believes these changes are
17 unnecessary, as PGE’s current decoupling mechanism is well designed and does not need
18 to be significantly changed. The purpose of decoupling is to eliminate the disincentive
19 that a utility has towards investments in energy efficiency. Because many of a utility’s
20 costs are fixed in the short run – investments in poles, conductors, substations,
21 transmission lines and power plants have already been made – reductions in customer
22 usage between rate cases can reduce the revenue that pays for those investments.
23 Decoupling allows the utility to recover its fixed costs even when customer usage (and,

¹ UE 335 – PGE/2400/Macfarlane – Goodspeed/3.

1 therefore, the sale of retail energy) is declining due to energy efficiency investments.
2 PGE was clear when it applied for decoupling in 2008 that the purpose was to eliminate
3 the disincentive to invest in energy efficiency:

4 It is a simple and straightforward cost recovery “true up” adjustment
5 mechanism that removes the financial disincentives we experience when
6 we support efforts to encourage customers to pursue energy efficiency.
7 The disincentives are manifest through reduced energy usage that lowers
8 PGE’s revenues, particularly revenues to cover the fixed costs of PGE’s
9 operations. Decoupling mechanisms are necessary because the traditional
10 regulatory model and pricing structures cause earnings to fall when
11 customers conserve energy...

12 The disincentives we note are not hypothetical. For example, if PGE’s
13 residential customers reduce loads by just 0.5% per year, we estimate lost
14 margins of approximately \$2 million in the first year and growth by an
15 equal amount each year (without a general rate case).²

16 PGE’s current decoupling mechanism was approved in 2008 and the results demonstrate
17 that it has been successful.

18 **Q. Please Explain.**

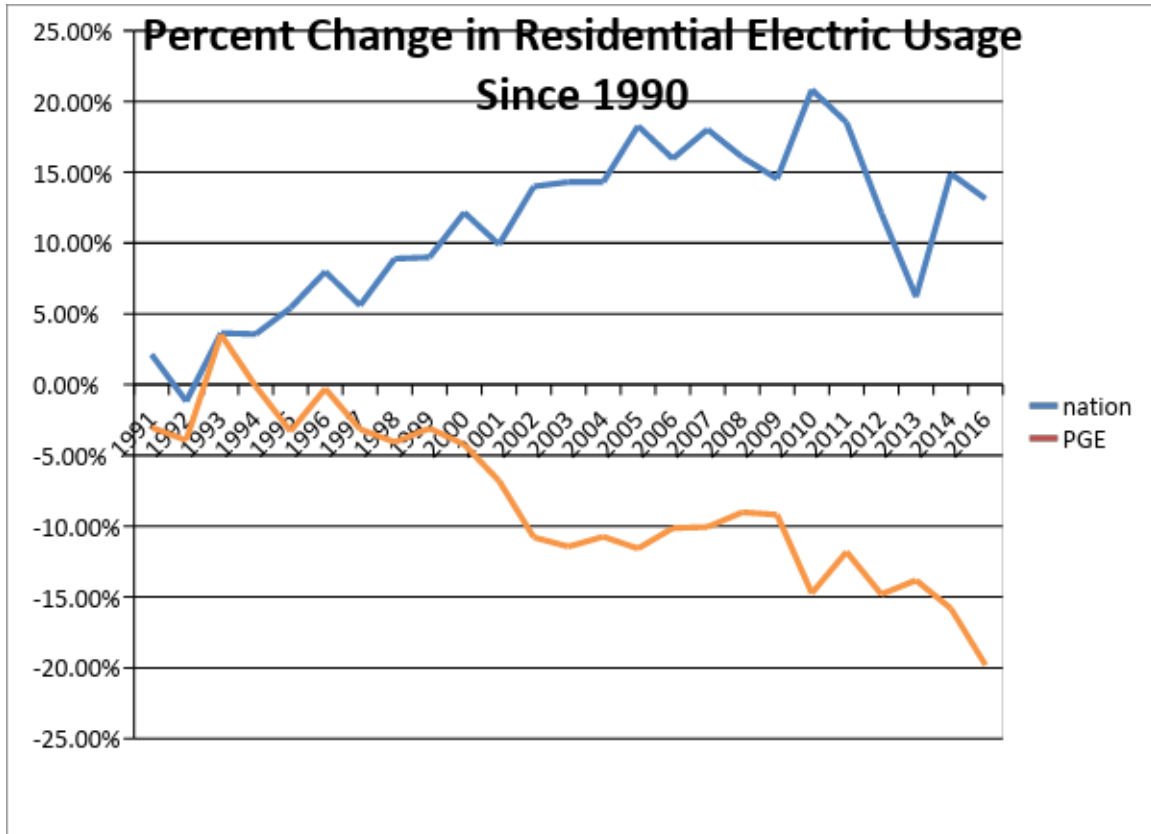
19 **A.** In 2008, the year that the mechanism was approved, PGE acquired 18.58 aMW of
20 energy efficiency savings.³ Since adopting its decoupling mechanism, PGE has more
21 than doubled the amount of energy efficiency savings. In 2017, PGE acquired 40.4 aMW
22 of energy efficiency savings.⁴ In addition, the following graph shows that there has been
23 a 20% decline in the average PGE residential household usage since 1990.⁵ Half of this
24 decline has happened since PGE’s decoupling mechanism. Decoupling has clearly been
25 a large driver in increasing the level of PGE’s customer’s energy efficiency savings.

² UE 197 – PGE/100/Piro/18-19.

³ Energy Trust of Oregon, 2008 Annual Report to the Oregon PUC, page 8

⁴ Energy Trust of Oregon, 2017 Annual Report to the Oregon PUC, page 4.

⁵ PGE data from Oregon Utility Statistics, Oregon Public Utility Commission. National data is from the Energy Information Agency.



1 Of course, decoupling was not the only change that happened in 2008 relating to
2 energy efficiency programs. That was the year that the legislature authorized collecting
3 energy efficiency funding from residential and small commercial customers in amounts
4 that exceeded the 3% public purpose cap. This provided the requisite funding for energy
5 efficiency to grow over the last decade as the Energy Trust of Oregon (ETO) continues to
6 identify additional opportunities. However, in eliminating PGE’s disincentive towards
7 energy efficiency funding, PGE has been a partner of the ETO, as it has continued to
8 increase this investment. In working with the state’s investor-owned utilities, the ETO
9 has been a tremendous boon to energy efficiency in Oregon.

10 **Q. If CUB believes decoupling is a success, why did CUB oppose PGE’s**
11 **decoupling mechanism in 2008?**

1 **A.** CUB has been a consistent supporter of decoupling since the early 1990s. CUB
2 supported decoupling mechanisms in the 1990s for both PGE and PacifiCorp. CUB has
3 supported decoupling mechanisms for NWN, Cascade, and Avista. The only docket
4 where CUB opposed decoupling was UE 197, in which PGE’s current mechanism was
5 approved. CUB’s opposition was due to two reasons. First, when PGE and PacifiCorp
6 were granted decoupling mechanisms in the 1990s, removing this disincentive did not
7 lead to additional energy efficiency investment. Instead, the utilities decreased their
8 energy efficiency investments.⁶ When Cascade and NWN requested decoupling, CUB
9 tied its support to commitments to increase energy efficiency programs. Rather than
10 removing the disincentive and hoping for the best, CUB supported removing the
11 disincentive while increasing energy efficiency programs that are available for customers.
12 In UE 197, PGE did not make any commitments to increase energy efficiency funding.
13 CUB was unwilling to support decoupling without a commitment to increase energy
14 efficiency. Second, decoupling is a shift of risk from shareholders to customers. This
15 does not mean that decoupling should be rejected, but, rather, that a “decoupling
16 mechanism should only be adopted when the shift of risk to customers is offset by new
17 programs that measurably benefit customers.”⁷

18 Not only was PGE not offering any offset to the shift in risk associated with
19 decoupling, PGE denied that such a shift in risk exists. However, by fully litigating this
20 issue, we got resolution. The Commission found that decoupling did shift risk from
21 shareholders to customers. To compensate customers for this additional risk the

⁶ UE 197 – CUB/100/Jenks/47.

⁷ UE 197 – CUB/100/Jenks/49.

1 Commission required a ten-basis point reduction in the Company’s ROE to compensate
2 customers for this shift of risk.⁸

3 **Q. What is CUB’s position on the changes proposed in this proceeding?**

4 **A.** CUB opposes PGE’s proposed changes. Decoupling has been successful in removing
5 the disincentive to energy efficiency investment, which was PGE’s stated reason for
6 decoupling in the first place. None of these changes will affect that disincentive, so none
7 of them are necessary for decoupling to achieve its goal. If the mechanism is not broken,
8 it does not need to be fixed.

9 **Q. CUB discussed its opposition to including weather in the decoupling mechanism**
10 **in your opening testimony, how do you respond to the Company’s Reply**
11 **Testimony?**

12 **A.** PGE’s Reply Testimony offered no good reasons to implement this change. PGE
13 argues that decoupling does not shift risk, points to a single year where customers would
14 have received a refund for a decoupling adjustment, and argues that if we compare bills
15 on a fixed revenue basis there would not be an increase in variation in customer bills.
16 Finally, PGE unpersuasively responds to CUB’s concern about retroactive ratemaking by
17 stating that it uses a deferral.

18 **Q. How do you respond to the Company’s argument that this is not a shift in risk?**

19 **A.** CUB finds PGE’s argument bizarre. The Commission has already found in a fully
20 litigated case that decoupling is a shift in risk. That is the whole reason the Company is
21 proposing weather decoupling. Currently, when the weather is harsh, revenues increase
22 and the Company has additional earnings, and when weather is mild, revenues decrease

⁸ OPUC Order No. 09-020.

1 and the Company has lower earnings. In other words, weather risk affects earnings in a
2 manner that naturally fluctuates. This is not unusual. Many business that sell products
3 that are affected by weather – from snow tires to air conditioners – find their earnings are
4 affected by weather risk. PGE’s proposal is an attempt to shift this risk to customers by
5 trading earning volatility for volatility of customer bills. However, by erroneously
6 denying it is a shift in risk, PGE alleviates itself from any need to offset that shift in risk
7 by reducing ROE or offering some other customer benefit to offset the shift in risk. This
8 is patently unfair, and does not align with traditional ratemaking principles.

9 **Q. How do you respond to PGE’s argument that residential customers will be**
10 **charged \$15 million more due to 2017 weather, than they would if we implemented**
11 **weather decoupling?**

12 **A.** Setting broad policy based on a single year’s experience is unwise. 2017 combined a
13 harsh winter and a harsh summer, so, under weather decoupling, customers would receive
14 a 2018 credit associated with 2017 weather. However, since weather variation goes in
15 both directions, in other years customers would receive a surcharge on their bills. PGE
16 would not propose weather decoupling if it always (or even mostly) resulted in a credit to
17 customers. It is important to realize that the credit/surcharge flows to customers the
18 following year, so it would not affect how much 2017 customers paid in 2017 relative to
19 2017 weather. This is part of why it increases the volatility of customers’ bills. Mild
20 weather one year will lead to a surcharge the following year which could be a year with
21 harsh weather. This means that customers would face not only higher bills due to
22 increased usage in the harsh year, those bills would be even higher due to the decoupling
23 charge. And the opposite would happen where the credit for a harsh year could be

1 provided to customers during a mild year, when bills are already lower. In short, the
2 random variation of surcharges and credits and harsh and mild weather will lead to
3 combinations that increase already high bills and reduce already low bills. Again, it is
4 trading earnings variability for bill variability. PGE responded to a similar argument
5 from Staff by arguing that if Staff were to “used fixed revenues as a basis to compare
6 bills,” there would be “no variation for full weather decoupling.”⁹ This argument misses
7 the main issue. Customers are not billed for fixed revenues, but, rather, are billed with a
8 combination of fixed and variable charges. Weather decoupling increases the volatility
9 of customer bills.

10 **Q. PGE addressed CUB’s argument that this is retroactive ratemaking. How do you**
11 **respond?**

12 **A.** PGE appropriately stated that they would address the legality of weather decoupling in
13 legal briefing, but states that the Company defers the decoupling adjustment. PGE knows
14 of no Commission precedent against weather decoupling, and that the Commission has
15 approved it for gas utilities, with CUB’s support.¹⁰

16 CUB agrees that PGE currently defers the decoupling adjustment. Deferred
17 accounting is the allowable exception to retroactive ratemaking. However, the deferral
18 statute clearly allows for deferrals of decoupling revenues associated with energy
19 conservation programs but not weather. PGE’s current decoupling mechanism clearly is
20 retroactive ratemaking, but is allowed under the carve out for deferrals related to energy

⁹ UE 335 – PGE/2400/Macfarlane – Goodspeed/5.

¹⁰ UE 335 – PGE/2400/Macfarlane – Goodspeed/8.

1 conservation. Its proposed expansion to include weather variation is not permissible
2 retroactive ratemaking.

3 PGE claims to know of no Commission precedent against weather decoupling.
4 This is surprising. The Commission clearly and directly rejected weather decoupling for
5 electric utilities in the 1990s.¹¹ PGE's current mechanism was approved and
6 reauthorized several times without weather decoupling. The Commission has had
7 opportunities but has never authorized weather decoupling for an electric utility. There is
8 no precedent for weather decoupling of an electric utility.

9 PGE is correct that weather decoupling is used by Cascade and Avista in Oregon
10 (not NWN) and CUB supported these mechanisms in settlement. At the time those
11 mechanisms were established, CUB was not aware of the legal problems associated with
12 weather decoupling in Oregon, but now recognizes that these problems need to be
13 addressed. CUB will appropriately expand on legal issues associated with weather
14 decoupling in briefing. Even though CUB did support Cascade and Avista's
15 mechanisms, it is important to recognize that natural gas and electricity are
16 fundamentally different products. Within residential homes, natural gas is used primarily
17 for space heating.¹² Looking at the last 10 years of available data shows per capita
18 residential use of gas and electricity peaked in Oregon in 2008 and was lowest in 2015.
19 For Oregon's natural gas utilities, 2015 residential per capita usage was 22.4% below
20 2008. For Oregon's investor-owned electric utilities, 2015 usage was 12.1% lower.¹³
21 The weather risk for natural gas utilities is nearly twice as high as it is with electric

¹¹ See UM 409 and UE 88.

¹² EIA, https://www.eia.gov/energyexplained/index.php?page=us_energy_homes.

¹³ Oregon Utility Statistics, Oregon PUC.

1 utilities. CUB supported the mechanisms proposed by Cascade and Avista due in part to
2 the fundamental differences between natural gas and electric utilities. CUB's support
3 was also given in the context of a larger stipulated agreement which will ultimately be
4 revisited.

5 **Q. What is CUB's Position of PGE's proposal to loosen the 2% cap on decoupling**
6 **adjustments?**

7 **A.** CUB does not believe it is necessary. PGE has had decoupling since 2008 with a 2%
8 cap on adjustments. During that time PGE has sought reauthorization of decoupling
9 several times without a need to change this cap. As long as decoupling is weather
10 normalized, there is not a need to change the cap. It is the addition of weather that causes
11 a need for greater surcharges.

12 **Q. What is CUB's Position on eliminating the Lost Revenue Recover Adjustment**
13 **(LRRRA) Mechanism and expanding decoupling to include large customers?**

14 **A.** As long as decoupling variances are recovered from the class of customers that
15 caused the variation, this change will only affect large commercial and industrial
16 customers, so the customers CUB represents won't be affected. CUB does offer caution,
17 however. Decoupling adds a surcharge to customers when load is less than what was
18 forecast. A severe recession can have a significant impact on loads, as industrial
19 production declines and some business go under. The LRRRA is designed to identify the
20 revenue adjustment associated with energy efficiency investments, so it excludes the
21 effects of recessions. It is important to recognize that recessions affect classes of
22 customers differently. When a business closes due to a recession, the demand from the
23 business disappears. However, the residential customers who lose their jobs when the

1 business closes still have homes and will continue to use electricity. Moving from the
2 LRRRA to decoupling for large commercial and industrial customers means that in a major
3 recession, there will be a surcharge related to lost commercial and industrial loads that
4 will fall on other commercial and industrial customers. Maine experienced this in 1991
5 when it implemented decoupling for Central Maine Power (CMP). As the mechanism
6 was implemented, Maine experienced a deep recession. By 1993, customer owed CMP
7 \$52 million in decoupling adjustments with little of this amount relating to energy
8 efficiency programs. Decoupling “was increasingly viewed as a mechanism that was
9 shielding CMP against the economic impact of the recession, rather than providing the
10 intended energy efficiency and conservation incentive impact.”¹⁴

III. UNBUNDLING SMART GRID INVESTMENT

11 **Q. PGE called CUB’s recommendation on allocating 10% of CET investment to**
12 **generation as “not unreasonable.”¹⁵ Does this solve the issue for CUB?**

13 **A.** CUB’s concern was broader than just the CET investment. Increasingly, PGE is
14 making investments in its distribution system, which provides both capacity and energy
15 resources. While CUB is encouraged that PGE finds a refunctionalization of CET to be
16 “not unreasonable”, CUB is concerned with a larger group of smart grid investments. In
17 addition to refunctionalizing CET, CUB called for PGE to have a third party look at the
18 costs in a specific set of FERC accounts¹⁶ that represent where smart grid investments
19 will reside and make recommendations as to the approaches of functionalization that
20 would better align those investments with their expected functions. CUB continues to

¹⁴ UE 197 – CUB/305/Jenks/12-13.

¹⁵ UE 335 – PGE/1600/Tooman – Espinoza/20.

¹⁶ FERC Accounts 362, 370, 371, 391-397, 901, and 902.

1 believe this is the best course moving forward to ensure that CET and other smart grid
2 related investments are properly recovered according to cost causation principles.

IV. 2017 STORM DEFERRAL

3 **Q. Please describe this issue.**

4 **A.** The Company, in its initial testimony, asked the Commission to approve its 2017
5 deferral of storm costs. In a recent settlement conference, all parties agreed to address
6 this issue in UM 1817.

V. STORM BALANCING ACCOUNT

7 **Q. Please describe this issue.**

8 **A.** The Company is proposing the establishment of a storm balancing account for Level
9 III storm costs. For ratemaking purposes, a present value ten year rolling average of
10 Level III storm costs is used to forecast Level III storm expense. If storm expense
11 exceeded the amount collected from ratepayers, the balancing account would be allowed
12 to become negative.

13 **Q. What are other intervenors positions on the establishment of a storm balancing
14 account?**

15 **A.** AWEC is in opposition to the Company proposal because they believe that the
16 Company has not established a rationale for establishing a balancing account. Staff
17 views stochastic risks modeled in rates as a reasonable risk that Company assumes with
18 normal utility operation.

19 **Q. What issues do you see with the Company's justification for changing the
20 balancing account?**

1 **A.** In its initial filing, the Company stated “Commission approval for major storm
2 accrual would provide PGE the opportunity to recover prudently incurred storm costs,
3 which will continue to increase as more frequent and severe storms impact our service
4 territory in the future.”¹⁷ Then in the rebuttal testimony, the Company states “major
5 storms are unpredictable by nature.”¹⁸

6 Major storms are indeed unpredictable by nature. The Company has not provided
7 sufficient scientific evidence that more frequent and severe storms will impact its service
8 territory. The Company has not established a rationale for extraordinary ratemaking
9 treatment of Level III storm costs.

10 **Q. What issues does CUB have with the using a balancing account for Level III**
11 **storm costs?**

12 **A.** Under a balancing account, there is no incentive for PGE to control Level III storm
13 costs. For example, PGE has discussed traffic grid after level III storms increasing labor
14 costs due to overtime wages. Under a balancing account, the Company does not have the
15 incentive to manage level III storm costs between rate cases. CUB continues to advocate
16 against a balancing account for Level III storm costs.

VI. SCHEDULE 122

17 **Q. Please summarize this issue.**

18 **A.** PGE is proposing to change the language in its Schedule 122 Renewable
19 Resources Automatic Adjustment Clause (RRAAC) to include energy storage in addition
20 to renewable resources. PGE seeks Commission affirmation in this docket that energy

¹⁷ UE 335 – PGE/800/Nicholson –Bekkedahl/16/Lines 20-21.

¹⁸ UE 335 – PGE/2100/Nicholson –Bekkedahl/6/Lines 16.

1 storage used to integrate renewables throughout its system meets the definition of
2 “associated energy storage” in SB 1547.

3 **Q. What issue does CUB have with the Company’s request?**

4 **A.** CUB continues to believe Schedule 122 should not be modified to include “associated
5 energy storage” because there is no immediate need to do so.¹⁹ The energy storage
6 projects implicated in UM 1856 will be subject to recovery outside of this rate case, and
7 the company has no other immediate plans to outlay capital for energy storage projects on
8 their system. However, CUB takes issue with the Company’s request for the
9 Commission to clarify that energy storage used to integrate renewables on a utility’s
10 system qualifies as “associated energy storage.”²⁰ CUB does not believe this was the
11 legislature’s intent. The Company is asking the Commission to read into the legislature’s
12 intent in including the language “associated energy storage” in Senate Bill (SB) 1547,
13 Section 11. To discern the legislature’s intent in including the word “associated”, an
14 examination of the traditional maxims of statutory construction—including an
15 investigation of pertinent legislative history—is necessary. Since this is a legal issue,
16 CUB will properly address the implications of the Company’s request in briefing.

17 **Q. Does this conclude your testimony?**

18 **A.** Yes.

¹⁹ UE 335 – CUB/200/Gehrke-Jenks/15.

²⁰ UE 335 – PGE/2400/Macfarlane – Goodspeed/11.