Agenda Date: December 9, 2021
Item Number: A1

Docket: UE-152253
Company: PacifiCorp, d/b/a Pacific Power & Light Company

Staff: Jason Ball, Assistant Director

**Recommendation**

Issue an order granting the Petition filed by PacifiCorp to extend and modify its decoupling mechanism in Docket UE-152253 to become effective on January 1, 2022, with the following conditions:

The next deferral period shall be January 1, 2022, through December 31, 2022, and each calendar year thereafter.

(1) The deadline to file the annual Schedule 93 rate adjustment shall be June 15 of each year and the rate effective date shall be September 1 of each year.
(2) PacifiCorp to evaluate decoupling in its next general rate case to better determine the relationship between an earnings test and the general purpose of decoupling.

**Overview**

On September 1, 2016, the Washington Utilities and Transportation Commission (Commission) issued Order 12 in Docket UE-152253. Among other things, Order 12 authorized PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) to implement a decoupling mechanism.[1]

On July 07, 2021, per Order 12, PacifiCorp submitted an evaluation of the mechanism after three full deferral periods.[2] On August 10, 2021, PacifiCorp filed a Petition with the Commission to extend and modify the decoupling mechanism.[3] Specifically, PacifiCorp requested:

(1) The next deferral period begins September 15, 2021, through December 31, 2022, each subsequent deferral period be the calendar year, the deadline to file the annual Schedule

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[1] Decoupling is a regulatory tool to encourage conservation. The purpose of decoupling is to remove counterincentives a utility might have to pursuing energy efficiency programs. Decoupling breaks the link between a utility's revenue and the amount of energy sold. Four of the five regulated energy utilities in Washington have full decoupling mechanisms.

[2] UE-210543, *PacifiCorp Decoupling Mechanism Evaluation* (July 7, 2021). PacifiCorp's first deferral period was only from September 15, 2016, through June 30, 2017. Therefore, the report is for deferral periods ending June 30, 2018, June 30, 2019, and June 30, 2020.

[3] The original filing was included in a separate docket (UE-210543). At the request of Staff, PacifiCorp refiled the report with a petition to change the mechanism in the original docket establishing the decoupling mechanism. This is consistent with the procedural treatment of decoupling mechanisms for other utilities.

93 rate adjustment be changed to June 15 from December 1, and the effective date be changed to September 1 from February 1.
(2) Large General Service under 1 MW (Schedule 36) and Agricultural Pumping Service (Schedule 40) customers be removed from the decoupling mechanism.
(3) The tracking and true-up for all decoupled customers be done as one decoupled group.
(4) The earnings test be based only on earnings from decoupled customers.

On September 9, 2021, the Commission entered Order 17 which extended the current decoupling mechanism until December 31, 2021, to allow parties additional time to review the changes proposed by PacifiCorp.

**Background**

PacifiCorp has four customer classes that are decoupled: Residential (Schedules 16, 17, and 18), Small General Service (Schedule 24), Large General Service under 1 MW (Schedule 36), and Agricultural Pumping Service (Schedule 40). For each customer class, PacifiCorp has an authorized revenue based on a per-customer amount set in a general rate case (GRC). The difference between the authorized revenue and the actual revenue is tracked monthly. Any amount over- or under-collected from the authorized level is deferred until the next annual true-up. PacifiCorp also has an earnings test where 50 percent of any earnings above the authorized rate of return is shared with decoupled customers.

**Discussion**

PacifiCorp believes the decoupling mechanism should be continued but recommends four changes.[4] Commission staff (Staff) agrees.

*(1) Change the deferral period and effective date*

PacifiCorp's current deferral period is July 1 through June 30. PacifiCorp has requested making the deferral periods follow the calendar year.[5] Staff agrees with this recommendation. Moving to a calendar year eliminates the use of a mid-year Commission Basis Report, which is administratively burdensome to review. Relying on calendar year commission basis reports is consistent with the decoupling mechanisms approved for Puget Sound Energy and Avista.

*(2) Remove Large General Service and Agricultural Pumping from Decoupling*

Overall, decoupling is heavily influenced by each schedules rate design, specifically the use of volumetric versus demand charges. The table below summarizes the revenue recovered by each of the decoupled customer classes.

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[4] Petition, Attachment C at 19.

[5] PacifiCorp's Petition anticipated the need for "stub year" due, beginning in September of 2021, due to the timing of the original filing. However, Order 17 delayed the original filing until the end of 2021 eliminating the need for such treatment.

**Table 1 – Comparison of Schedule Revenues by Type of Charges**[6]

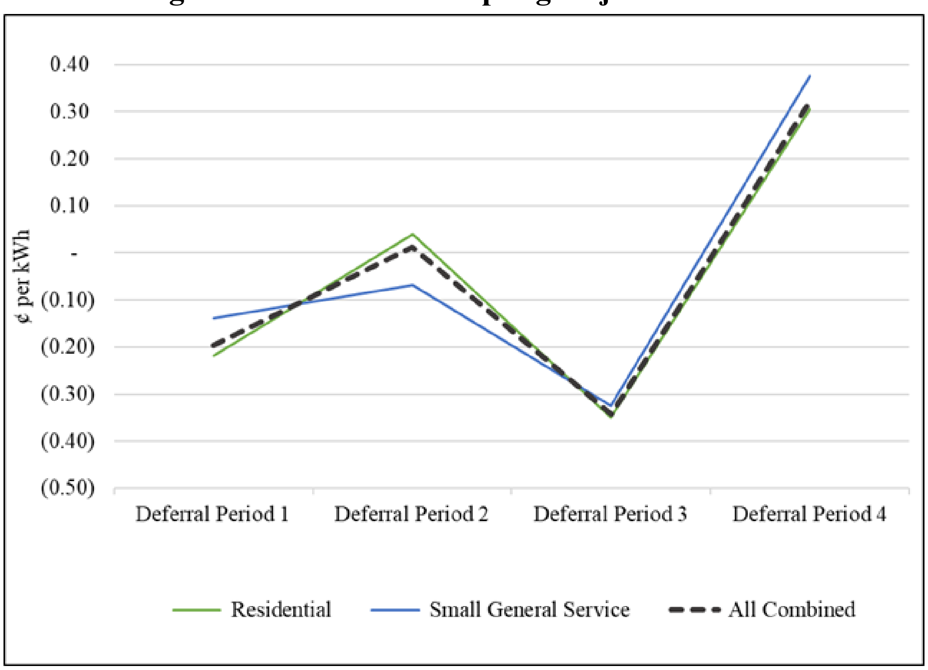
| | Variable Charges (kWh only) | Other |
|---|---|---|
| Residential | 99.9% | 0.1% |
| Small General Service | 86.2% | 13.8% |
| *Average* | 93.1% | 6.9% |
| Large General Service | 68.5% | 31.5% |
| Agricultural Pumping | 77.0% | 23.0% |
| *Average* | 72.8% | 27.2% |
| Large General Service (48T Undecoupled) | 70.9% | 29.1% |

Large General Service and Agricultural Pumping both have a higher portion of their costs recovered through non-volumetric rates, like other non-decoupled customers. Conversely, Residential and Small General Service customers primarily recover costs through volumetric rates. Therefore, the Large General Service and Agricultural Pumping Service customers are more like the non-decoupled schedules and should be removed from the mechanism.

*(3) Combine the remaining decoupled rate schedules into one group*

With the removal of the Large General Service and Agricultural Pumping Service, only the Residential and Small General Service schedules are decoupled. The chart below summarizes the relationship between these two classes.

**Figure 1 – Annual Decoupling Adjustment Rates**




[6] As reflected in PacifiCorp's Limited Issue Rate Filing, Docket UE-210532.

Given the close revenue relationship of these two customer classes, the Company believes combining the currently decoupled classes would have minimal impact on decoupled rates. Staff agrees.

*(4) Earnings test based on decoupled earnings only*

Currently, the earnings test applies to *all* earnings received by a company subject to decoupling during the deferral period, regardless of if the earnings came from decoupled or non-decoupled customers. This is the same treatment of decoupling for both Avista and PSE. However, PacifiCorp is differently situated than these two utilities because the Company operates in six states and has dynamic allocation factors for the three western states (California, Oregon, and Washington). This unique operating structure has resulted in the Company passing back earnings to Washington customers, even if the overearnings were not specifically attributable to Washington operations or Washington decoupled revenues.[7] The effects of this treatment are illustrated in the table below.

**Table 2 – Comparison of Annual Earnings by Deferral Period and Method**

| | Sept 15, 2016 – June 30, 2017 | July 2017 – June 2018 | July 2018 – June 2019 | July 2019 – June 2020 | Total |
|---|---|---|---|---|---|
| | 6,463,193 | 6,991,968 | 23,491,193 | - | 36,946,354 |
| Deferral Period Over Earnings $ | 5,150,659 | 6,991,968 | 23,491,193 | - | 35,633,820 |
| Current Earnings Test Method $ | 2,575,330 | 3,495,984 | 11,745,597 | - | 17,816,910 |
| Proposed Earnings Test Method $ | 2,128,409 | 2,889,391 | 9,707,680 | - | 14,725,480 |
| Difference $ | (446,921) | (606,593) | (2,037,916) | 0 | (3,091,430) |

Staff agrees with PacifiCorp's conclusions on decoupled earnings. This change will limit the impact from decoupling on the Company's earnings while maintaining the throughput incentive for specific schedules. Moreover, this change will bring the actual earnings sharing more in-line with other Washington electric utilities.[8] However, Staff believes the relationship between decoupling mechanisms and performance goals, such as increasing conservation, cannot be solved outside of the context of a general rate case.[9] Therefore, we recommend this issue be re-examined in the Company's next general rate case, to better determine how to align an earnings test with the general purpose of decoupling.

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[7] Petition, Attachment C at 16-18.

[8] *Id.* at Table 7.

[9] The Commission is actively investigating this topic through proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, Docket U-210590.

## Conclusion

Staff has reviewed the Petition filed by PacifiCorp to modify the decoupling mechanism, and believes the modifications are in the public interest. Staff recommends the Commission adopt the Company's proposals while updating the deferral period to use the appropriate calendar year. Staff also recommends the Commission order PacifiCorp to evaluate decoupling in its next general rate case to better determine the relationship between an earnings test and the general purpose of decoupling.