Portland General Electric Company
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October 20, 2011

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol Street NE. Ste. 215
P.O. Box 2148
Salem, Oregon 97308-2148

RE: UM 1415 – Reply Comments of Portland General Electric Company on Staff's Investigation into Cost Methods for Use in Developing Electric Rate Spreads

Enclosed for filing in UM 1415 are an original and five copies of:

> Reply Comments of Portland General Electric Company on Staff's Investigation into Cost Methods for Use in Developing Electric Rate Spreads

This document is being filed by electronic mail with the Filing Center and also served electronically upon the UM 1415 service list.

Sincerely,

Randall J. Dahlgren
Director, Regulatory Policy & Affairs

Enclosures
cc: UM 1415 Service List

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1415

In the Matter of the PUBLIC UTILITY COMMISSION OF OREGON Staff Investigation into Cost Methods for Use in Developing Electric Rate Spreads	))))))	**REPLY COMMENTS OF PORTLAND GENERAL ELECTRIC COMPANY**

General Comments / Clarifications

PGE thanks the Commission for the direction and clarification given during the recent workshop in this docket, including that the Commission does not seek to force utilities or other parties to seek approval of any mandatory time-varying rates.

PGE reminds the UM 1415 parties that changes in utility billing and accounting systems are frequently time-consuming and can be expensive. IT resources necessary to accommodate proposed changes in pricing structures are limited and other valuable projects compete for them. Therefore, if changes in pricing structures are desired or mandated, it is important to have adequate lead time in order to achieve the greatest potential benefit. While programs for residential and small commercial customers such as those proposed by CUB could potentially provide benefit to PGE customers, the development of any Time of Use (TOU) rates or alternatives/accompaniments to TOU, such as direct load control, should be evaluated within a framework that ensures reasonable decision-making and allocation of limited resources. PGE believes the Commission straw-man proposal, with the modifications described in our opening testimony, and additional suggestions in these comments, provides a reasonable framework for such evaluation.

PGE agrees with Staff comments at the September 27, 2011 workshop that seasonal rates were not warranted in PGE's last General Rate Case (UE 215).

We also respond here to ALJ Hardie's September 30, 2011 memo request of parties for reply comments.

Attachment A contains a full list of proposed factors and directives that PGE recommends.

Comments on the Factors

1. PGE Comments on the additional factors proposed by other parties.

ICNU specifies revenue stability or lack thereof as an additional proposed factor. PGE agrees with ICNU; revenue instability may lead to a higher required cost of capital for the utilities, or create a need to file more frequent general rate cases due to revenue erosion, and therefore should be an additional factor for the Commission to consider.

PGE agrees with the Commission's comments made at the September 27th workshop that cost-causation should be a factor. As Idaho Power points out in its Opening Comments, properly designed time-varying rates better reflect cost of service. PGE currently has mandatory time-varying prices for all customers exceeding 200 kW. The basis for the time-varying prices for these customers is to better align prices with costs.

PacifiCorp proposes, and PGE agrees with, adding a factor that takes into account customer acceptance of a mandatory time-varying rate structure. A change in pricing structure has a much greater possibility of success if customers welcome the change. We note that we also suggested this factor in our opening comments.

For the reasons specified above, PGE believes that these additional factors should be added to the factors in the Commission straw proposal.

2. Seasonal Rate Differentiation.

Seasonal rates can be easier to implement because they do not necessarily require interval meters and the associated infrastructure. As such, the cost to implement seasonal rates could be considerably lower. For example, PGE had a two season rate for residential customers in the 1980's. The transition between seasons occurred in the shoulder months on a meter reading basis and thus no prorating of bills was necessary. If more than two seasons are implemented, however, transitions would likely occur on a service basis and bills would need to be prorated. Multiple prorated bills would create confusion and likely negate any potential improvement in price signals. Finally, seasonal price differentiation should be on an individual utility basis. A particular seasonal differentiation for one utility is not necessarily appropriate for all Oregon utilities.

In general, PGE believes that the factors specified in the straw proposal are still applicable to evaluating seasonal pricing as are the additional proposals specified above and in PGE's Opening Comments. To these proposed factors, PGE would add one additional factor:

Additional Factor 1: A season or block of months designated for higher prices should have demonstrably higher costs than other seasons and/or months.

3. Should the proposed factors apply to voluntary time-varying rates? Demand-response programs?

Yes, the framework for evaluation should apply to all TOU rates, whether voluntary or not. In addition, we believe the factors provide a reasonable framework for evaluating other demand-side programs such as demand-response.

As we stated earlier, utilities have limited resources and decisions regarding these programs should be made in a rational, comparative manner to ensure those resources are used wisely to produce the greatest potential benefit.

Directives

1. Detailed Cost information.

As with most utilities, PGE would find it very challenging to produce hourly actual generation costs. However, in its most recent General Rate Case (UE 215), PGE provided estimates of hourly marginal energy costs based on real levelized long-term energy costs shaped by an hourly pricing algorithm influenced by historical hourly Mid-Columbia hub prices. PGE believes that these marginal cost estimates can provide estimates of what the Commission is requesting in Directive 1. Alternatively, historical hourly hub prices can also be a good proxy for the hourly costs that the Commission requests.

2. Appropriate Venue and Process.

As stated in its Opening Comments, PGE believes that UM 1415 can be the appropriate docket for systematically evaluating mandatory time-varying pricing. The Commission in Order 11-255 specified Commission-directed workshops at the beginning of utility IRP processes to identify a limited number of time-varying structures that utilities will thoroughly evaluate. Again, PGE believes that these limited number of structures should be identified and evaluated in UM 1415.

3. Identify the types of time-varying rates or demand-response programs that should be examined.

PGE currently has mandatory time-varying prices for all Cost of Service customers over 200 kW. PGE also offers residential and small non-residential customers optional time-varying rates as part of their portfolio options.

In addition, PGE currently offers, will offer, or is investigating the following programs:

- Schedule 12, Residential Critical Peak Pricing Pilot Program
- Schedule 77, Firm Load Reduction Pilot Program
- Automated Demand Response Pilot Program for Commercial and Industrial Customers
- The Salem Smart Grid Demonstration Program: includes Residential, Commercial, and Industrial Direct Load Control

PGE appreciates the Commission's consideration of these comments.

DATED this 20th day of October, 2011.

Respectfully submitted,

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Proposed Factors

F-1. The amount of demand-side resource and system benefits that can be tapped through a time-varying rate.

F-2. The extent to which an optional rate or alternative program can achieve that resource.

F-3. The impact on customers of the proposed rate (e.g. rate shock, bill impacts on vulnerable populations) and the ability of customers to respond to those impacts.

F-4. The means available to mitigate impacts on customers (e.g. phasing in of rate differentials, opt-in and opt-out provisions, providing programmable equipment or software to enable customers to respond more easily).

F-5. The direct costs of implementing time-varying rates (e.g. IT costs, accounting, billing, metering).

F-6. The ability to explain and communicate the rate to customers.

F-7. The cost differential between the relevant time periods, how robust the cost studies are, and whether customer response to the time-varying rate is expected to affect the cost differential over time.

F-8. The acceptance of certain customer classes to mandatory time-varying rates and the implications to call center operations and the overall customer experience.

F-9. The effect that mandatory time-varying rates may have on direct access participation.

F-10. The potential level of short-term revenue attrition to the utility if customers either reduce or shift their consumption due to time-varying rates and the long-term volatility of revenues.

F-11. The appropriate price elasticity of demand by customer class to incorporate into a projection of time-varying energy and demand billing determinants.

F-12. The degree of complexity of the time-varying rates.

F-13. The availability of cost effective alternatives such as direct load control or other use of technology to automate changes in consumption patterns to create system benefits.

F-14 The degree to which cost causation is reflected in the time-varying rate.

F-15. A season or block of months designated for higher prices should have demonstrably higher costs than other seasons and/or months.

Proposed Directives to Utilities

D-1. Within xx days, utilities to come in with detailed information on the cost of serving Oregon customers during different time periods within the year – cost by hour of the day and month of the year; cost by day of the week and month of the year; cost by on-peak and off-peak period by season of the year; and cost of peak hour by month of the year.

D-2. (Removed reference to IRP) Hold Commission-directed workshops in a generic proceeding to identify a limited number of time-varying rate structures that utilities will thoroughly evaluate. The utility evaluation will assess all factors listed above in detail, plus any others identified during the Commission workshops. The evaluation of the costs and benefits of the rate structures will be subject to review by all participating parties.

D-3. Removed