ITEM NO. 4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 14, 2015

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** NA

DATE: March 30, 2015

TO: Public Utility Commission

FROM: Jason R. Salmi Klotz AA for SK

THROUGH: Jason Eisdorfer and Aster Adams

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 1622) Information only Update to Commission from staff on progress toward determining a gas hedge value of energy efficiency.

STAFF RECOMMENDATION:

Informational Only.

DISCUSSION:

In Docket No. UM 1622, Order No. 14-332, issued October 1, 2014, the Commission directed Staff to report back in six months on the development of a hedge value for natural gas. This memorandum updates the Commission on the progress of developing a natural gas hedge value of energy efficiency.

Northwest Natural (NW Natural or Company) and Staff met on December 8, 2014, to discuss the development of a proxy hedge value for demand side management (DSM).

Initially, NW Natural expressed concern that while it would like to take a leadership role among Oregon local distribution companies (LDCs) in determining a more realistic natural gas avoided cost methodology, it believed that the development of a hedge value fits better within the broader avoided cost issue. Further, NW Natural was concerned that any temporary proxy value would be seen as the Company's number and that it would have to defend it for the foreseeable future, regardless of how confident it was with the validity of the figure to begin with. By means of example, the Company suggested that perhaps the hedge or premium value was zero or even negative and provided a theoretical reasoning for this case. This led to a conversation about what exactly was included in this hedge value or a premium value. Staff provided a worksheet that showed how the electric utilities develop their premium values, with separate inputs for both stochastic risk reduction and capacity resource deferral as part of the "hedge" value of DSM. This helped clarify the conversation in identifying that the disagreement was not about what should be included in avoided costs, but a definitional one about what portions of avoided costs should be labeled as "hedge value." More specifically, both parties agreed that there are adders that should be considered as part of avoided costs and both parties agreed that there is also the potential for a hedge value premium due to commodity price uncertainty. Additionally, both parties agreed that looking at a new methodology for LDCs to model avoided costs should be considered, though this discussion should include other stakeholders. Thus, it was agreed that both categories of avoided costs (stochastic risk reduction and capacity resource deferral) should be discussed in workshop, proposal, or a discussion document to be provided at a future workshop.

NW Natural and Staff then discussed what could reasonably be done in regards to a temporary proxy value for the stochastic risk reduction portion of avoided costs (what NW Natural sees as the hedge value of DSM). It was discussed that to gain additional agreement a workshop could be held with a small group of interested parties such as the Northwest Industrial Gas Users (NWIGU), Citizens' Utility Board (CUB), Northwest Energy Coalition (NWEC), and the Energy Trust of Oregon (ETO). Within the context of this workshop, the Company, with the support of Staff, could suggest a proxy value, then articulate all the caveats that should be considered as part of the hedge value as well as all the additional items that should be considered in avoided costs or under the capacity resource deferral as the electric utilities have done. To do this, NW Natural agreed to come up with a starting proxy value, quite possibly being set at the average of the hedge value of Oregon electric utilities as well as a discussion document of all the items that should be considered or discussed at a workshop.

On February 17, 2015, Commission staff and stakeholders held a public workshop. Here NW Natural presented their proposed gas hedge methodology. After discussion stakeholders agreed to submit comments to Commission staff by March 3, 2015. By the comment deadline date staff had received comments from only one stakeholder. Because neither of the other LDCs, CUB, NWIGU, or other customer rights groups had submitted comments, staff felt the record was insufficient to make an informed decision.

Staff conducted an informal poll of workshop participants to determine why comments had not been submitted by the deadline date. Each stakeholder responded that the timeline was simply too aggressive, and that their staff resources were too tight. Internally, Commission staff resources were also tight with the recent departure of the Commission's energy efficiency subject matter expert who had been leading this issue for the Commission. After some discussion internally and externally, staff issued correspondence to the stakeholders informing them of an extension to the comment deadline date to April 1, 2015. Part of the rationale for this long extension was to give time for the Commission's new energy efficiency subject matter expert to become familiar with the docket history, the issue of hedge value, and allow this person time to formulate an informed opinion on the subject. Given that this new staff started work at the Commission on March 23, 2015, Staff has conferred with the stakeholders about a further extending the comments due date to April 15, 2015 to accommodate all interested participants and allow for an extensive review of NW Natural's proposal and to allow new Commission staff an opportunity to comment.

UM 1622