

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 283

In the Matter of)
)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
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Request for a General Rate Revision)
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REBUTTAL TESTIMONY
OF THE
CITIZENS' UTILITY BOARD OF OREGON

August 13, 2014



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1 **I. Introduction**

2 Our names are Bob Jenks and Jaime McGovern. Our qualifications are provided
3 in CUB Exhibit 101.

4 Most of the issues associated with PGE's forecasted test year revenue requirement
5 have been settled. In our rebuttal testimony, CUB discusses the following:

- 6 • CUB agrees with ICNU that PGE's proposed treatment of the production tax
7 credits (PTC) is improper. PGE would require customers to finance their own
8 rate reduction at the Company's cost of capital. CUB proposes to eliminate
9 the rate of return the Company proposes to place on unutilized PTCs.
- 10 • CUB continues to oppose PGE's proposal to carve-out RPS costs from the
11 PCAM. PGE's proposal is a misuse of the automatic adjustment clause
12 established in SB 838.

1 • CUB responds to PGE’s testimony, in which the Company opposes CUB’s
2 proposal to include energy efficiency in the marginal cost of service study.¹
3 While PGE agrees that it will soon no longer be able to acquire all cost
4 effective energy efficiency that is included in its IRP, and that this will
5 increase costs, the Company proposes no solution. CUB’s proposal to include
6 energy efficiency in the marginal cost of service study is based on sound
7 principles of marginal cost pricing, will remove a barrier to acquiring all
8 energy efficiency, will remove an improper benefit that industrial customers
9 are receiving from SB 838 funds and, when appropriately phased in using the
10 customer impact offset (CIO), will be fair to all parties.

11 **II. Production Tax Credits**

12 CUB objects to PGE charging customers a rate of return on the unused production
13 tax credits generated from the Tucannon River and Biglow wind projects. In its Opening
14 Testimony, ICNU witness Bradley Mullins raised a concern about the PTCs:

¹ UE 283 – PGE/1600/Tinker-Liddle/24-27.

1 The Company's filing includes approximately \$75.6 million in rate base
2 associated with deferred production tax credits generated from the
3 Tucannon River and Biglow wind facilities. The deferred production tax
4 credits are intended to represent the credit amounts that the Company is
5 not capable of utilizing in the test period and that must be carried-forward
6 to a future tax year. Based on the Company's normalized tax forecast in
7 this proceeding, however, the Company should be capable of utilizing the
8 entire amount of production tax credits generated from both Tucannon
9 River and Biglow in the test period. I recommend that the \$75.6 million in
10 deferred production tax credits be removed from rate base, which will
11 result in an approximate \$8.3 million reduction to revenue requirement,
12 detailed in Exhibit ICNU/104.²

13 PGE responded to ICNU by arguing that this is happening due to the difference between
14 normalized taxes for ratemaking purposes and actual taxes paid by the Company and the
15 effects of accelerated depreciation. PGE made several important points in its Reply
16 Testimony:

- 17 • For ratemaking purposes, the PTCs are passed through to customers:
18
19 Customers receive a current tax benefit associated with the estimated
20 PTCs as they are generated through a direct reduction to current income
21 tax expense in the revenue requirement calculation.³
- 22 • PGE cannot actually use all of the PTCs because of accelerated depreciation of
23 Tucannon:
24
25 However, when Tucannon is added to the base case, PGE's utilization of
26 PTCs declines due to the impact of accelerated depreciation on taxable
27 income.⁴
- 28 • PGE is charging customers a rate of return on the PTCs that it is unable to utilize:
29
30 Customers are receiving a cash benefit in the form of a revenue
31 requirement reduction before PGE receives a corresponding cash benefit
32 (i.e., reduced tax liability) from the federal government. In other words,
PGE is making a payment to customers and must wait for a period of time
before it receives payment from the government. Therefore, it is

² UE 283 ICNU/100/Mullins/14, line 15 to 15, line 2.

³ UE 283 PGE/1900/Greene/6.

⁴ UE 283 PGE/1900/Greene/5.

1 reasonable for customers to pay PGE's cost of capital on the unutilized
2 PTCs.⁵

3 PGE's response to ICNU's proposed adjustment raised several issues for CUB.

4 CUB became quite familiar with accelerated depreciation in the years when there
5 were annual tax cases associated with SB 408, the utility tax law. Accelerated
6 depreciation complicates ratemaking when it comes to tax expense because it allows a
7 utility to recognize, for tax purposes, depreciation of an investment, rather quickly, over a
8 period of time that is shorter than the life of the investment. For instance, a utility may
9 choose to fully depreciate an asset, for tax purposes, over three years, rather than the 30
10 year useful life of the plant. Booked against the income of the utility, these large
11 consolidated deductions reduce the tax liability of the utility significantly in the first three
12 years. In the last 27 years, however, there is a different effect, which we will discuss
13 below. In this way, accelerated depreciation is meant, by lowering the tax burden in the
14 early years of an investment, to be an incentive for utilities to invest. IRS code, however,
15 does not allow it to be passed through to customers of regulated utilities on an accelerated
16 basis. As such, utilities are required to reduce rate base by an amount equal to the
17 accelerated depreciation, which has the effect of providing to customers an amount
18 equivalent to the accelerated depreciation, but spread over the life of the asset. The
19 consequence of this is two separate tax calculations: (1) the one PGE prepares for the IRS
20 and (2) the one that is prepared for ratemaking purposes. For IRS purposes, PGE will
21 choose to utilize accelerated depreciation. The large credits from this accelerated
22 depreciation will swamp the Company's tax liability for the year, and therefore, it will be
23 unable to fully utilize the PTCs. Therefore, PGE must hold the PTCs for use in a later

⁵ UE 283 PGE/1900/Greene/7.

1 year. In this general rate case, however, where accelerated depreciation is not practiced
2 (as per the IRS code), PGE has only standard depreciation to deduct against income, and
3 hence has tax liability to offset. Therefore, in ratemaking, PGE can utilize the PTCs,
4 which are properly reflected as a reduction to revenue requirement.

5 From CUB's understanding of taxes and ratemaking, this is the appropriate way
6 to file taxes and propose revenue requirement. As stated above, CUB objects to PGE's
7 proposal that customers finance the rate reduction at PGE's authorized cost of capital.
8 Customers are being asked to finance the cost of lowering rates this year. This is
9 inappropriate for several reasons.

10 First, the fact that there are different calculations for taxes for ratemaking
11 purposes and IRS purposes is not grounds for adding a charge to customers. Accelerated
12 depreciation requires PGE to calculate taxes differently on a year to year basis.
13 Accelerated depreciation benefits shareholders by reducing their tax liability and boosting
14 net income. Although customers do not receive the benefit of accelerated depreciation
15 for ratemaking purposes, customers do receive the benefit of a reduction in rate base over
16 a longer period of time. The difference between the two methodologies serves to
17 increase net income to shareholders in any given year. CUB would love to see
18 ratemaking utilize the same methodology as taxation. CUB would love to see accelerated
19 depreciation used for ratemaking purposes. But that is not allowed. Those are not the
20 IRS rules. So we keep two separate books for taxes. For ratemaking purposes, there is
21 room to utilize the PTCs so they flow through to customers. There is no basis to charge
22 customers a rate of return in order to finance those into the future, because for ratemaking
23 purposes, they are used. They are similar to Renewable Energy Credits (RECs) that have

1 been retired for ratemaking purposes. But on PGE's tax books, it is different. The
2 Company hasn't utilized them yet. But there is no reason to charge customers a financing
3 cost on something that, for ratemaking purposes, no longer exists and is no longer used
4 and useful – it has been used up.

5 Second, there is no basis to charge a financing cost because nothing is being
6 financed. PGE presents this as if it is a burden on shareholders to finance the rate
7 reduction associated with passing the PTCs through to customers, but PGE incurs no
8 financing cost. By utilizing accelerated depreciation, PGE's real tax burden is less than
9 its regulatory tax burden. Its actual costs are less than its revenue requirement. There is
10 nothing to finance. PGE is inventing a cost that isn't there. PGE might argue that
11 without getting this rate of return on its unutilized PTCs, the effect is that it is not getting
12 the true value of accelerated depreciation. The rules on accelerated depreciation,
13 however, require us to calculate the taxes using two different methodologies: one for
14 ratemaking and one for PGE's tax filing. That is what should be done. There is no basis
15 to adjust rates up because the Company thinks the value of accelerated depreciation
16 should be greater than the difference between these two methodologies.

17 Third, the argument that the Company is shifting the benefits forward in time for
18 ratepayers, but not for shareholders, only makes sense in the absence of other subsequent
19 investments. PGE points to the reduction in rate base associated with accelerated
20 depreciation to claim that customers are receiving the benefit of accelerated depreciation.

21 ⁶ This, however, is where it is important to focus on the later 27 years in the
22 hypothetical 30 year plant that was amortized for tax purposes over three years. CUB
23 acknowledges that hypothetically, such a reduction, effectively paid over the life of the

⁶ UE 283 PGE/1900/Greene/7.

1 plant, benefits customers. But the simple fact of the matter is utilities are consistently
2 making new investments, which means that the utility is routinely using accelerated
3 depreciation to cut current taxes. So, in year four, if the utility has a new investment, it
4 can again charge accelerated depreciation for a new investment against its income. While
5 individual investments reverse over time, this is not an academic exercise that can be
6 examined out of context. The practical implication of regular, new investments is that the
7 taxes that PGE pays will almost always be less than the taxes it bills to customers due to
8 accelerated depreciation. This was one of the reasons that SB 408 could not equalize
9 taxes paid and taxes collected. While this would theoretically disappear if PGE stopped
10 making new investments and simply managed the old investments as they were used up,
11 this is not expected in the near future.

12 Finally, even if one were to accept PGE's argument that the rate base adjustment
13 associated with accelerated depreciation is a significant customer benefit, it has little to
14 do with the PTCs. Any customer benefit is associated with accelerated depreciation, not
15 the PTCs. Accordingly, customers should not receive a reduction in the value of the
16 PTCs by having to pay PGE a financing charge on those PTCs. PGE will be able to use
17 the unutilized tax credits in a future tax year when it has greater tax liability or less
18 accelerated depreciation. At that future date, the Company will employ the PTCs that
19 were earned by Tucannon and Biglow, but for ratemaking purposes, those PTCs will
20 have already been spent. Actual taxes will be lower than ratemaking taxes and actual net
21 income will be higher because of this. As such, actual taxes are expected to be lower
22 than forecasted taxes in the test year. Later, when PGE utilizes the PTCs, actual taxes
23 will again be lower than forecasted taxes. Because of this, PGE proposes creating an

1 additional charge (PTC financing charge) to add to customer rates. As stated above, this
2 makes no sense to CUB.

3 Therefore, CUB proposes that PGE be required to remove the cost of capital
4 charges associated with the PTCs that are unutilized for PGE's taxes, but are fully
5 utilized for ratemaking purposes.

6 **III. RPS Carve Out Misuses the SB 838 Automatic Adjustment Clause**

7 PGE is proposing to use the Renewable Adjustment Clause (RAC), an automatic
8 adjustment clause that was established in SB 838, to get dollar-for-dollar recovery of
9 costs associated with wind forecasting error and wind integration. PGE, however,
10 acknowledges that this is not what was originally intended when the RAC was created:

11 PGE is not suggesting that the automatic adjustment clause described by
12 SB 838 was intended to provide for recovery of variances related to RPS-
13 compliant resources.⁷

14 The automatic adjustment clause was controversial. Opponents of SB 838
15 highlighted it and argued that it was outside of normal ratemaking and would harm
16 customers. As a supporter of SB 838 and as a consumer advocate, CUB wrote a memo
17 that was designed to explain the purpose of the automatic adjustment clause and respond
18 to the concerns that were raised, which is attached as CUB Exhibit 201. According to
19 that memo, the automatic adjustment clause was limited in purpose:

⁷ UE 283 PGE/1600/Tinker-Liddle/7.

1 Section 13(3) of SB 838 directs the Public Utility Commission to establish
2 an automatic adjustment clause or other mechanism to allow timely
3 recovery of prudently-incurred costs related to the construction or
4 acquisition of renewable energy resources and related transmission. The
5 provision further states that, upon request, the PUC shall grant a hearing
6 and other specified procedural rights.

7 ***Why have an automatic adjustment clause at all?***

8 Renewable energy resources generally come in smaller increments than
9 fossil-based generation resources. We anticipate that, in meeting the SB
10 838 renewable energy standards, the utilities will be continuously adding
11 modestly-sized investments on an ongoing basis. If the utility were to wait
12 to recover the costs of these resources until a general rate case, either a)
13 there would be a considerable time gap between a utility's investment on
14 behalf of customers in a renewable resource, and the utility's ability to
15 recover the cost of that investment, or b) the utility will have multiple
16 general rate case filings every year. Since a general rate case can last nine
17 to eleven months and requires an enormous expenditure of resources from
18 the utility, the agency and the intervenors, overlapping rate cases from
19 multiple utilities would lead to chaos.

20 Furthermore, the utilities are currently operating under annual automatic
21 adjustment clauses to pass through variable power costs for fuel and
22 purchased power which were set up to facilitate industrial customer access
23 to non-utility market power. Since adding no-fuel renewable energy
24 resources lowers a utility's variable costs, it seems incongruous to use an
25 automatic adjustment clause to pass through lower variable power costs to
26 customers, but not to allow the utility to recover the costs of the renewable
27 resource that led to the lower power costs.⁸

28 It is important to note that the automatic adjustment clause was designed to deal
29 with the problem of regulatory lag associated with capital investments incurred for RPS
30 compliance. It was compared to the automatic adjustment clause associated with direct
31 access—the TAM and APCU. Both of these are forward-looking dockets that are
32 concerned with forecasting costs, not truing up costs after the fact.

33 PGE states that “PGE could just as easily use a schedule other than the RAC to
34 implement the RPS Carve Out.”⁹ But PGE did not propose something other than the

⁸ UE 283 CUB/201/Jenks-McGovern/1.

⁹ UE 283 PGE/1600/Tinker-Liddle/7, lines 4-5.

1 RAC, and CUB has to respond to what PGE is requesting. The automatic adjustment
2 clause was controversial when the RPS was before the legislature due in part to concern
3 that it would be utilized to allow a utility to recover costs that it could not recover under
4 other existing ratemaking mechanisms. This is precisely what PGE is now proposing.
5 CUB and others supporters of the RPS argued that the automatic adjustment clause was
6 narrowly intended to deal with regulatory lag. PGE's proposal should be rejected
7 because it is not consistent with the purpose of the automatic adjustment clause.

8 **IV. CUB's Proposal to Include Energy Efficiency in the Marginal Cost** 9 **of Service Study**

10 In our Response Testimony, CUB proposed including energy efficiency in the
11 marginal cost of service study as an energy resource based on the Company's Integrated
12 Resource Plan (IRP). Doing so would recognize that different classes of customers are
13 purchasing these IRP resources in different bundles. Residential and small commercial
14 customers would purchase more low-cost energy efficiency and less, higher cost gas and
15 wind; customers above one average Megawatt (1aMW) would purchase less of the
16 efficiency resource and more gas and more wind. By recognizing who pays for energy
17 efficiency and by recognizing that the benefit of energy efficiency funding is lowered
18 system costs, CUB's proposal would remove a barrier to acquiring all cost-effective
19 energy efficiency.

20 **A. CUB's Modified Proposal to Phase-In Our Marginal Cost Approach.**

21 In Response Testimony, CUB noted that the Commission could use the customer
22 impact offset (CIO) to phase in our marginal cost approach. Phasing in effects of
23 marginal cost studies is a traditional tool the PUC uses to avoid rate shock. Therefore,

1 the recognition of potential rate shock, absent the CIO, is not a legitimate argument
2 against including conservation in the marginal cost study. Because energy efficiency is a
3 cumulative resource (see below for more discussion of this), this problem has grown to
4 its current size over time. For this reason, it is reasonable to resolve it over time.
5 However, as a cumulative resource, this problem will grow worse if not resolved so there
6 is an urgency to begin making progress.

7 CUB also believes that a legislative solution could be enacted that would remove
8 the cap on large customers funding energy efficiency. However, PGE has yet to actively
9 seek a legislative resolution or even propose a legislative concept. This means that for
10 the time being, the solution must come from the regulatory powers of this Commission.
11 This Commission does not have the power to require that customers above 1aMW pay
12 more for energy efficiency, but it does have the power to ensure that customers who pay
13 for efficiency programs receive the benefits of those programs. And it has the
14 responsibility to ensure that customers above 1aMW are not improperly benefitting from
15 SB 838 energy efficiency.

16 For these reasons CUB now proposes that the PUC:

- 17 • Implement CUB's proposal to add energy efficiency to the marginal cost
18 of service study.
- 19 • Find that the direct benefit of energy efficiency funding by the utility is
20 defined as "lower system costs, not customer incentives." This will then
21 allow additional programs for industrial customers.
- 22 • Offset 90% of the impact of this to each customer class by adjusting the
23 CIO, as part of a phased approach, with the offset to be reviewed in the
24 next general rate case.

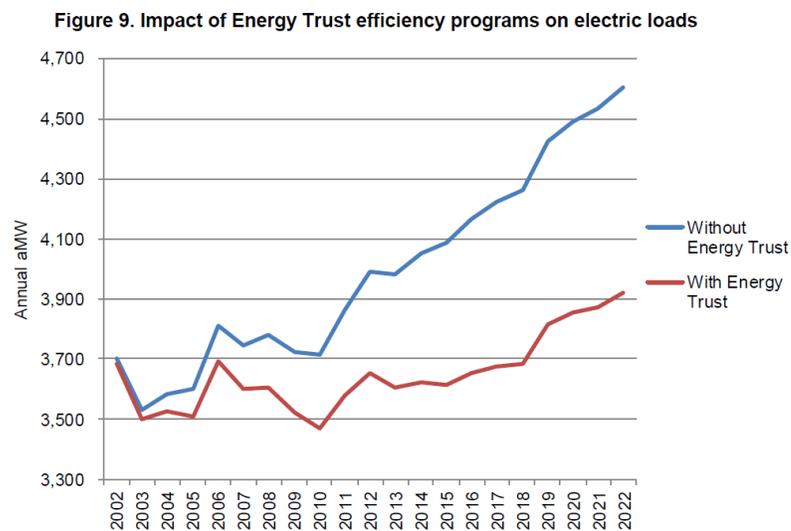
1 By phasing this in using the CIO, the PUC also allows for legislative solutions as an
2 alternative approach.

3 **B. Energy Efficiency Resources Are Cumulative and Benefit Customers.**

4 The graph below¹⁰ shows electric loads with and without energy efficiency
5 programs. We can see the divergence grow over time because energy efficiency is
6 cumulative.

Brief: Energy Trust of Oregon Energy Efficiency Programs

June 7, 2013



7

8 The measures that are installed this year will continue to reduce loads next year,
9 but next year we will add another year of energy efficiency programs. Each year, the
10 difference between what loads would be with and without energy efficiency gets larger.

11 According to the graph above, in 2014, approximately 400 annual aMWs have
12 been avoided because of ETO programs.¹¹ At 6 cents/kWh, the cost of meeting this load
13 would be \$210 million. While this includes both PGE and PacifiCorp customers, there is
14 no doubt that PGE's rates would increase significantly if it were not for the ETO

¹⁰ http://energytrust.org/library/reports/Brief-Energy_Efficiency_Programs.pdf

¹¹ http://energytrust.org/library/reports/Brief-Energy_Efficiency_Programs.pdf

1 programs, including the SB 838 programs. PGE is approximately 60% of ETO's electric
2 utility load,¹² which means that PGE customers will save about \$126 million in 2014 due
3 to energy efficiency programs. While the above graph includes both SB 838 and SB
4 1149 funds, it needs to be recognized that much of this gap is being funded only by
5 customers with loads below 1aMW. And that gap is growing. If this issue is not
6 addressed now, the problem will only grow worse as the benefits of energy efficiency
7 accumulate.

8 **C. CUB's Proposal is Consistent With the Language of SB 838.**

9 PGE claims that CUB's proposal may draw "legal challenges."¹³ A plain reading
10 of SB 838, however, makes clear that CUB's proposal is consistent with its provisions.
11 CUB and PGE are in agreement that SB 838 prohibits industrial customers from paying
12 for SB 838 energy efficiency programs and prohibits them from receiving a direct benefit
13 from SB 838 funded energy efficiency.¹⁴

14 CUB's proposal, however, follows directly from section (2)(a) of SB 838, quoted
15 below:

¹² 2012 Utility Statistics, OPUC.

¹³ UE 283 PGE/1600/Tinker-Liddle/26.

¹⁴ See UE 283 PGE/1600/Tinker-Liddle/24 and 26.

1 (1) In addition to the public purpose charge established by ORS 757.612,
2 the

3 Public Utility Commission may authorize an electric company to include
4 in its rates the costs of funding or implementing cost-effective energy
5 conservation measures implemented on or after the effective date of this
6 2007 Act. The costs may include amounts for weatherization programs
7 that conserve energy.

8 (2) The commission shall ensure that a retail electricity consumer with a
9 load greater than one average megawatt:

10 (a) Is not required to pay an amount that is more than three percent of the
11 consumer's total cost of electricity service for the public purpose charge
12 under ORS 757.612 and any amounts included in rates under this section;
13 and

14 (b) Does not receive any direct benefit from energy conservation measures
15 if the costs of the measures are included in rates under this section.¹⁵

16 As stated above, CUB's proposal is entirely consistent with SB 838. CUB's
17 proposal is built around removing the direct benefit that industrial customers receive from
18 SB 838 funded efficiency. CUB is not proposing a supplemental public purpose charge
19 in addition to the 3% mandated in SB 1149 for customers above 1 aMW. Any suggestion
20 that CUB's proposal is a roundabout way to indirectly implement a large customer public
21 purpose charge proxy is unfounded. CUB is simply proposing to more accurately
22 allocate marginal costs in accordance with the resources secured by each customer class.

23 CUB's approach does not impact the funding of energy efficiency, except to
24 remove a barrier to increasing the funding provided by customers below 1 aMW. This is
25 quite easy to demonstrate because SB 838 funding is allocated to customers outside of the
26 revenue requirement as a surcharge on customers' bills. The marginal cost of service
27 study is used to allocate the revenue requirement, which does not include energy
28 efficiency funding. Changing the marginal cost of service study changes the allocation of

¹⁵ SB 838, Section 46 (codified as ORS 757.689).

1 the revenue requirement, but does not increase the energy efficiency tariffs. This makes
2 sense because CUB's approach is to reallocate the costs of the resources contained within
3 revenue requirement. The public purpose charge and supplemental public purpose
4 charges are charges outside of revenue requirement. Recognizing that residential and
5 small commercial customers meet a great deal of their load with the energy efficiency
6 resources means that these customers do not need to purchase as much from higher cost
7 resources. Conversely, customers with loads that are greater than 1 aMW are meeting
8 less of their resource needs with energy efficiency, so need to purchase more, higher cost
9 resources. CUB's approach does reallocate costs, but they are the costs of the non-energy
10 efficiency resources. This is certainly consistent with the language of SB 838.

11 **D. The Current Approach Violates SB 838 by Providing a Significant Direct**
12 **Benefit to Large Customers.**

13 SB 838 prohibits large customers from receiving a direct benefit from the
14 additional measures purchased from SB 838 dollars.¹⁶ Currently, this prohibition is being
15 violated. To see that customers with loads that are greater than 1aMW are receiving
16 benefits in violation of the law, one must recognize two facts:

17 **(1) Energy Efficiency is Purchased By the System for the System:**

18 When energy efficiency is purchased by the Company (System), in this case via
19 the Energy Trust, with funds collected by customers, the direct benefit of energy
20 efficiency measures are lower cost resources for the System. That is the rationale and
21 legitimate reason for a utility to purchase energy efficiency.

¹⁶ SB 838, Section 46(2)(b).

1 cost/kWh of energy efficiency, the ETO does not include costs borne by individual
2 customers of the utility. That is because the ETO provides resources to the utility's
3 system at a system cost that is funded by SB 838 and SB 1149 dollars, not customer out-
4 of-pocket dollars.

5 Second, defining the incentive payment itself as the benefit secured by energy
6 efficiency programs directly contradicts ratemaking practices. Nowhere in cost-
7 effectiveness research, OPUC ratemaking, or ETO literature can CUB find reference to
8 the incentive payment being interpreted as a benefit. In fact, the payment itself is a main
9 component of the cost of conservation programs.¹⁷

10 Because it is clear that the direct benefit is not individual load reduction and/or
11 incentive payments, let us look at the real direct benefit: the avoided investment in
12 generational resources designed to meet load, resulting in a portfolio of more cost-
13 effective resources and therefore lower system costs.

14 The Cadmus Group, in determining the benefit of energy efficiency, names only
15 two benefits: (1) utility avoided supply cost in the UCT and (2) utility avoided supply
16 cost in the UCT coupled with tax benefits in the TRC.¹⁸ The ETO, in its development of
17 cost-effectiveness, lists out the five benefits that it considers: avoided costs, reduced
18 transmission, risk, fuel costs, and non-energy benefits.¹⁹

19 PGE has identified energy efficiency as a low-risk, least-cost resource:²⁰

20 1. The value of the electrical and/or gas energy saved based on the
21 avoided cost forecasts of the utilities whose customers are served by the
22 Energy Trust, as reviewed and approved by the PUC. Periodically,
23 Energy Trust will work with the utilities and PUC to develop an average,

¹⁷ http://www.cadmusgroup.com/wp-content/uploads/2012/11/TRC_UCT-Paper_12DEC11.pdf

¹⁸ *Id.* at pg 2, Table 2.

¹⁹ <http://energytrust.org/library/policies/4.06.000.pdf>

²⁰ UE 283 CUB/202/Jenks-McGovern/10.

1 or merged cost forecast. This will be done separately for the electric
2 utilities and gas utilities, so that Energy Trust program decisions are based
3 on a single set of price forecasts for each fuel. Energy Trust may include
4 factors such as hedge value, if not considered in the utility forecasts, based
5 on agreement with the utilities and PUC.

6 2. Non-energy benefits will be quantified by a reasonable and practical
7 method. Unless and until the OPUC develops an alternative approach,
8 Energy Trust may use proxies for these benefits where research shows that
9 the benefits are large, they cannot be practically quantified, and they
10 clearly influence consumer decisions.

11 3. For electricity, both line losses and avoided Transmission and
12 Distribution construction.

13 4. Natural gas capacity benefits and benefits from reduced transmission
14 and delivery losses will be included where significant and quantifiable.

15 5. In addition, the Energy Trust will apply in its analysis the 10% credit
16 for energy efficiency as required under the Northwest Power Act and
17 OPUC docket no. UM-551. This credit recognizes the benefits of
18 conservation in addressing risk and uncertainty.

19 Each of these benefits is a quantifiable measure by which conservation measures
20 purchased by the system reduce costs for the system. In its testimony, CUB has focused
21 on how conservation resources have relieved pressure on the generation system.²¹ The
22 system savings solely from an energy perspective are massive:

23 Since 1980, Oregon households and businesses have realized energy
24 efficiency and conservation savings equivalent to eight to ten power
25 plants.²²

26 It should be noted, however, that the energy efficiency benefits to the system
27 associated with distribution and transmission, capacity and reduced risk were not
28 captured by CUB's proposal in this case. To that effect, our statements of the magnitude
29 of savings secured by low cost resources, and consequently disproportionately shared
30 with large customers, has been conservative.

²¹ included in the Energy Trust's benefit (1)

²² http://www.oregon.gov/energy/Ten_Year/Ten_Year_Energy_Action_Plan_Final.pdf

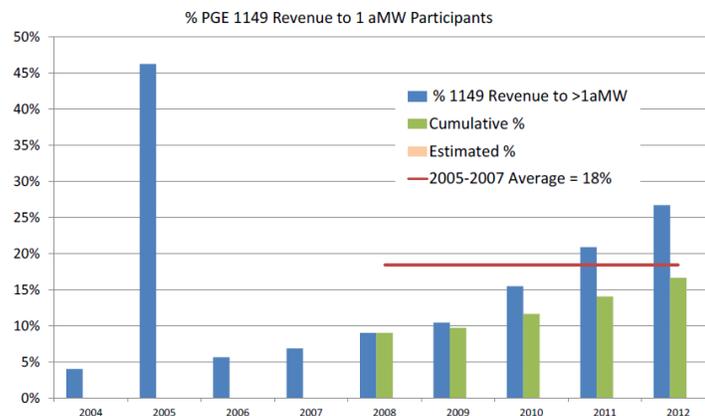
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Equal Credit for Equal Funding

It is clear that growing portions of Energy Trust program dollars have been directed at large customers:

Figure 19 plots incentives paid to over 1 aMW participants as a percentage of SB 1149 annual revenues by year. The cumulative post-2007 average percent of revenue after 2012 is 17 percent, compared to the baseline 2005-2007 average of 18 percent. In order to avoid exceeding the 18 percent baseline in 2013, 2013 incentives will need to be less than \$7.0 million, which is \$500,000 less than in 2012. The limit in Pacific Power territory is farther off, as the cumulative post-2007 average of 22 percent is well below the 27 percent baseline limit.

Figure 19. PGE funding vs limits



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Notice in the ETO figure, above, that funding for large customer incentives has exceeded 18.4% for the past several years.²³ CUB would like to be clear that this is not the problem. CUB supports the missions of the ETO, the Governor,²⁴ and the Commission²⁵ to acquire all cost-effective energy efficiency. CUB supports investing in low-cost conservation resources instead of high-cost generation resources, regardless of whether they are purchased from large or small customers. CUB's proposal has the advantage of eliminating the barrier to allowing ETO to pursue the most cost-effective resource, regardless of where it is sited. The problem is that the customer classes that

²³ ETO points out that PacifiCorp's cap is higher, and currently ineffective. CUB will address this difference below.

²⁴ http://www.oregon.gov/energy/Ten_Year/Ten_Year_Energy_Action_Plan_Final.pdf

²⁵ http://www.puc.state.or.us/electric_gas/EE%20PPA%20Report%20Final.pdf at pg 14.

1 purchase this low-cost resource for the system do not get credit within the system. If they
2 were to receive appropriate credit for their purchases of conservation via supplemental
3 public purpose funding, as their funded/purchased share of conservation resources
4 increased, they would receive a corresponding share reduction of alternate resources
5 (which in the Company's proposal is an SCCT/CCCT mix,²⁶ in Staff's proposal includes
6 renewables²⁷). For example, if the load for a customer class is 43% of the utility system,
7 it does not make sense that the class should purchase 43% of generation resources, and
8 53% of conservation resources. Ideally, that class would fund 43% of both, or less than
9 43% of generation resources and more than 43% of conservation resources (or vice versa,
10 in either case, so that the weighted average of all the resources that the customer class
11 funded was equal to my burden on the system). In the current system, small customers,
12 when accounting for conservation, are funding a larger portion of the resources than is
13 their burden on the system planning.

14 **E. Redefining "Direct Benefit."**

15 After SB 838 was signed, parties needed to (1) interpret the language of SB 838
16 and (2) develop an implementation that was acceptable to all parties and that would pass
17 OPUC muster. PGE's recollection of this process is stated in its testimony: "[t]o ensure
18 that customers with loads less than one average megawatt were not subsidizing customers
19 with over one average megawatt, PGE, PacifiCorp, the ETO, OPUC Staff, CUB, and
20 ICNU reached an informal agreement that the ETO would not exceed a historical amount
21 of energy efficiency funding for the larger customers' energy efficiency projects."²⁸

²⁶ UE 283 PGE/1400/Cody/3-12.

²⁷ UE 283 Staff/700/Compton/44.

²⁸ UE 283 PGE/1600/Tinker-Liddle/24, lines 10-14.

1 However, CUB's research and recollection reveals a slightly enhanced view of
2 this history. First, there was an agreement to limit historic (SB 1149) programs for
3 customers above 1aMW to the percentage of those programs that existed at the time.
4 The stakeholders believed that doing so would prevent these large customers from
5 receiving a prohibited benefit which was defined as the benefit associated with shifting
6 additional SB 1149 (public purpose) programs to industrial customers. It was believed,
7 at the time, that such an action was sufficient to ensure that customers above 1aMW
8 were not receiving a direct benefit and to prevent a subsidy of those customers from
9 customers with smaller loads. According to PGE's first Advice Filing under SB 838, it
10 was necessary to assure that there would be "no shift in the allocations of Public
11 Purpose funding":²⁹

12 Consistent with the requirements of SB 838, the proposed rate schedules are applicable
to the customer classes that will benefit from the additional energy efficiency program
funding. The proposed schedules thus exempt large nonresidential customers with
loads greater than 1 MWa and Self-Directing Customers (also with loads greater than 1
MWa at a site). The exempted class of customers is able to participate in existing,
available ETO programs funded through the public purpose charge (Schedule 108).
We will support the ETO as needed to assure that the incremental energy efficiency
funding is targeted to the customer classes providing the funding and there is no shift in
the allocations of Public Purpose funding.

13 In 2007, Fred Gordon at the ETO reached out to stakeholders and presented a
14 very detailed plan of supplemental funding implementation that would "assure that new
15 efficiency funds under SB 838 will go to the customers, as a group, who provide the
16 funds."³⁰ The proposal circulated by Mr. Gordon then goes on to detail how the ETO
17 would review the funding historically, going forward, and cumulatively for large
18 customers to maintain compliance.³¹ The proposal also states that the ETO would

²⁹ PGE Advice Filing 07-25, pg 2 (Oct. 26, 2007).

³⁰ UE 283 CUB/202/Jenks-McGovern/45.

³¹ UE 283 CUB/202/Jenks-McGovern/45-46.

1 curtail funding if post-SB 838 cumulative funding percentages exceeded historical
2 funding percentages.³² The proposal then goes on to detail procedural methods,
3 reporting and anomalies, like new buildings.³³

4 The approach specified and resulted in no difference in methodology between
5 PGE and PacifiCorp. For both utilities, the ETO calculated the cap by taking the
6 historical average of incentives paid to large customers as a portion of total historical
7 SB 1149 funding. Merely because of historical differences and demographics in the
8 territories, the two utilities ended up with different capped numbers. Moreover, as can
9 be seen from ETO Figure 19 above, if PGE's large customers had not received such a
10 large portion of incentives in 2005, the industrial cap would have been set at about 5%
11 and would have been reached long ago. If the cap had been met years ago, then this
12 issue would have been urgent then. But that was not the case, and as EPA regulation
13 111(d) is on the horizon, the looming so-called 'industrial benefit cap' is imminent and
14 least--cost resources are at risk, a revisit of this interpretation is appropriate. It is also
15 necessary, as demonstrated by the ETO:

³² UE 283 CUB/202/Jenks-McGovern/45-46.

³³ UE 283 CUB/202/Jenks-McGovern/46.

1 Longer term, the customer funding limitation is likely to leave cost-
2 effective energy savings on the table. Large industrial projects are often
3 time-sensitive, built into plant capital improvement cycles and broader
4 industrial equipment upgrades. Limitations on large customer funding may
5 not only delay when savings are acquired, it may foreclose opportunities
6 and reduce the cost-effective conservation resource. Energy Trust will
7 need to develop tools to estimate this savings reduction for future IRPs
8 and its 2015-2019 Strategic Plan.³⁴

9 As stated above, PGE's and PacifiCorp's respective cap numbers are different.

10 PGE asserts that part of the reason for this is the different historical makeup of incentives
11 in PacifiCorp territory:

12 PacifiCorp's cap is 27%; again based on an historical average of energy
13 efficiency payments from the ETO to PacifiCorp's industrial customers
14 over one average megawatt. The ETO initially found more industrial
15 energy efficiency opportunities in PacifiCorp's territory than PGE's.³⁵

16 Recognizing that these numbers are different, however, does not concede that
17 they are arbitrary. They are derived from the same methodology. Although PGE points
18 to the PacifiCorp industrial cap, it does not offer any methodology that would provide
19 PGE a similar result. Allowing an increase in industrial programs must be tied to a
20 finding that the current cap does not actually achieve the prohibition on customers over 1
21 aMW receiving a direct benefit from SB 838 programs. And if that cap is not effective at
22 achieving the prohibition on large customers benefiting from SB 838, then a different
23 methodology has to be put in place to ensure that large customers do not benefit from SB
24 838 funding. CUB has proposed a methodology that it believes meets these standards,
25 discussed above, and sincerely welcomes any other methodological changes that would
26 and resolve the issues put forth in its opening testimony.

³⁴ http://energytrust.org/library/reports/brief_energy_efficiency_programs.pdf.

³⁵ UE 283 PGE/1600/Tinker-Liddle/24, lines 18-21.

1 **F. PGE States That CUB Goes Beyond the Traditional Marginal Cost Approach**

2 PGE expresses empathy and concern with CUB's marginal cost proposal:

3 PGE understands the fairness issues being raised by CUB, including
4 concerns that residential customers are paying disproportionately for
5 energy efficiency. However, CUB's proposal goes beyond traditional
6 marginal cost analysis and it may draw legal challenges. The resulting rate
7 impacts of CUB's proposal are significant for the larger industrial
8 customers and may create an incentive for them to choose direct access.³⁶

9 Not only is energy efficiency an effective marginal resource to meet load, PGE
10 considers it a "low risk, 'least cost' resource"³⁷ and the Governor's ten year action plan
11 "calls for Oregon to meet all new electric load growth through energy efficiency and
12 conservation."³⁸ Given that the Governor's action plan is ten years and the Company's
13 IRP is inclusive of the RPS requirements in 2025, it is both relevant and appropriate to
14 address long-run marginal cost (LRMC) as the marginal cost of the resources designated
15 in the IRP as the least-cost, least-risk resources designed to meet load. Energy efficiency
16 is the lowest cost resource in the preferred portfolio and is expected to meet a significant
17 portion of PGE's load.

18 The fact that the Company has, to date, failed to model energy efficiency
19 marginal costs does not mean that it is inappropriate to do so. In fact, the current method
20 of marginal cost calculation more closely resembles the calculation of long run average
21 incremental cost (LRAIC), which represents "the present value (PV) of the additional
22 investment and operating costs associated with meeting a sustained incremental increase
23 in demand."³⁹

³⁶ UE 283 PGE/1600/Tinker-Liddle/26, lines 6-10.

³⁷ UE 283 CUB/202/Jenks-McGovern/28.

³⁸ Cover letter from Governor Kitzhaber, pg 1, attached to 10 Year Energy Action Plan (December 14, 2012).

³⁹ http://www.naruc.org/international/Documents/Reg%20modeling%20and%20Electric%20Distrib%20tariffs_ERO_Group%20A.pdf

1 While this may be appropriate for utilities with homogenous customer classes or
2 homogenous investments, CUB believes that using an average incremental costs
3 approach – a one size fits all approach – is inappropriate for PGE. CUB believes that all
4 resources that are identified in the IRP as marginal resources should be addressed, and
5 their marginal cost in meeting load should be evaluated. In this docket, CUB proposes
6 that the marginal cost methodology be revised to include calculations for the go-to
7 resource, energy efficiency. However, CUB is not alone in its suggestion that PGE’s
8 approach to marginal energy is an oversimplified model based on an SCCT/CCCT mix.
9 Staff recommends that renewables be treated an additional marginal resource, and be
10 valued and integrated with a wind proxy cost.⁴⁰

11 While CUB can accept that its approach may not be traditional, it does not believe
12 that this is an argument against improvement. CUB does not believe that the marginal
13 cost of an energy resource should be defined so narrowly in the short-term that it can only
14 mean the additional cost to the utility of generating one more kWh. Instead, in
15 understanding the term “energy” to mean 'the energy needs of its customers,' PGE
16 professes that it "develops an Integrated Resource Plan outlining our strategy for meeting
17 future energy needs,"⁴¹ which clearly identifies conservation as a key component in that
18 strategy. Given this common interpretation of energy, it is vital, in a long run marginal
19 cost approach, to avoid the pitfall of thinking incrementally, because it doesn't make
20 sense to develop a strategy to identify the cost of producing just one more kWh in the
21 long run. In the long run, expensive lumpy resources will need to be deployed to satisfy
22 energy needs. Therefore, CUB feels that it is entirely appropriate, and within the realm

⁴⁰ UE 283 Staff/700/Compton/2.

⁴¹ http://www.portlandgeneral.com/our_company/energy_strategy/resource_planning/default.aspx

1 of utility ratemaking, to calculate the LRMC of an energy resource by identifying the
2 resources in the IRP through the preferred portfolio approach, and then, given that mix of
3 resources and their respective forecasted weights of deployment, value the LRMC of
4 energy by weighting the cost of meeting energy needs by each of the resources. This
5 approach works with traditional resources, renewable resources and conservation
6 resources, all resources identified in the IRP and all resources designed and forecasted to
7 meet load in PGE's territory. In fact, CUB's approach would probably be viewed as a
8 simple refinement to the Marginal Cost model that had the effect of lowering the
9 marginal cost of energy, if it wasn't for the fact that different classes of customers
10 purchase energy efficiency at different levels.

11 If the concern is that the calculation of the marginal cost of energy efficiency is
12 nebulous, that concern is unfounded. The ETO has worked closely with the utilities, the
13 OPUC and stakeholders to be transparent and collaborative in serving Oregonians' energy
14 needs:

15 Forecasting the pace of introduction of these technologies and their cost
16 has been difficult historically; yet if they are ignored, utilities may plan
17 generation resources they do not need.⁴²

18 **G. Small Customers Are Not Incentivizing Large Customers to Choose Direct**
19 **Access.**

20 PGE raises a concern that a double digit rate increase for large customers will
21 encourage them to choose direct access.⁴³ The implication of PGE's argument is that
22 customers not eligible for direct access should subsidize the energy costs of customer
23 who are eligible in order to prevent those customers from participating in direct access.

⁴² http://energytrust.org/library/reports/Brief-Energy_Efficiency_Programs.pdf at pg 32.

⁴³ UE 283 PGE/1600/Tinker-Liddle/27.

1 But there is no basis for such a proposal. Inherently, if customers who are less than 1
2 aMW are buying more than their share of some resources, then they should be buying
3 less of other resources. Otherwise, they are subsidizing the resource needs of the large
4 customers. Directly asking for a subsidy in order to prevent direct access is
5 inappropriate. More importantly, SB 838 makes clear that the customers whose loads are
6 greater than 1 aMW – the ones who are eligible for direct access – are not allowed to
7 benefit from the SB 838 funded efficiency. For PGE to admit that there is a benefit, but
8 argue for its retention as a tool to prevent direct access, is in conflict with the language of
9 SB 838.

10 **H. PGE Is Not Acting Prudently With Regards to Energy Efficiency.**

11 PGE agrees with CUB that there is a problem -- that it will no longer be able to
12 acquire the cost-effective energy efficiency in its IRP. When CUB requested the PUC
13 not acknowledge PGE's IRP action item relating to energy efficiency, PGE responded by
14 saying that it is advocating for a solution in this rate case:

15 With respect to the funding cap on industrial customers, CUB is correct;
16 the ETO's forecast presumes that the funding limitation on industrial
17 energy efficiency measures is removed or similarly resolved to allow
18 unfettered ongoing large customer EE funding. Should the funding
19 limitation not be resolved, the ETO has estimated that 1.5-2 MW a of
20 incremental industrial EE measures will be missed annually. The ETO is
21 likely to reach its funding limit for PGE's industrial customers this year.

22 PGE is advocating in its General Rate Case testimony for a resolution that
23 addresses the current large customer EE funding constraint. Losing cost
24 effective energy efficiency opportunities would ultimately require
25 acquisition of more expensive resource alternatives to meet long term
26 energy and capacity needs.⁴⁴

27 PGE's advocacy of a resolution in this General Rate Case is not very clear:

28 **Q. What does PGE propose with regard to the cap?**

⁴⁴ LC 56 PGE Reply Comments, pg 20.

1 A. Given the statutory prohibition on industrial customers bearing costs
2 associated with SB 838 energy efficiency measures, ratemaking may not
3 be the means to address CUB's concern. The only solution may be a
4 legislative solution. For this reason, PGE does not have a counter
5 proposal to CUB's but offers a willingness to engage with the parties to
6 work on a solution, legislative or otherwise.⁴⁵

7 PGE has known about this problem since 2012,⁴⁶ and has admitted that the
8 problem will prevent it from acquiring cost-effective efficiency, which will lead to higher
9 system costs. There is a barrier to PGE acquiring the cost-effective resources in the IRP,
10 and PGE has chosen to take a passive approach to dealing with that barrier. For this
11 reason, CUB believes that PGE is not acting prudently – a prudent utility would propose
12 solutions and work to removing such barriers.

13 PGE's approach in the IRP was to ignore this issue and continue to forecast all
14 cost-effective efficiency, claiming that it would propose solution to this problem in its
15 current general rate case. But if PGE believes that the solution is legislative, then it
16 should be proposing legislative concepts that would solve this problem. PGE proposes
17 no legislative concepts. It proposes no regulatory solutions. If it wasn't for the fact that
18 CUB is raising the issue, CUB does not believe that PGE would have discussed it in its
19 IRP or in this rate case.

20 PGE's testimony acknowledges that "over the next 5 years, 8-12 aMW of saving
21 could be lost."⁴⁷ At 6 cents/kWh, the cost of meeting this additional load comes to
22 between \$4 million and \$6 million. As these higher costs are incurred and PGE seeks
23 recovery of them, PGE will need to show that it is acting prudently and trying to remove

⁴⁵ UE 283 PGE/1600/Tinker-Liddle/27.

⁴⁶ UE 283 CUB/106/Jenks-McGovern.

⁴⁷ UE 283 PGE/1600/Tinker-Liddle/26.

1 the barrier to avoiding these higher costs. It would be helpful if the Company was
2 actually engaged in trying to remove this barrier.

3 **V. Conclusion**

4 In conclusion, for CUB, there are three remaining issues in UE 283. The issue of
5 the interaction between PTCs and accelerated depreciation, the use of the Renewable
6 Adjustment Clause to true up costs associated with wind forecasting and wind integration
7 and the issue of energy efficiency.

8 With regard to the PTCs and accelerated depreciation, CUB recommends that the
9 Commission not award the Company a rate of return on the unused PTCs. The inability
10 to use the PTCs is a direct result of the Company's choice to accelerate depreciation for
11 tax purposes, a choice that the Company benefits from. Customers should not have to
12 finance their own intertemporal rate relief

13 With regard to using the Renewable Adjustment Clause (SB 838's automatic
14 adjustment clause) to true-up wind forecasting error costs, CUB believes this is
15 inappropriate. The automatic adjustment clause in SB 838 was controversial and was
16 intended to serve the narrow purpose of eliminating regulatory lag.

17 In the case of energy efficiency and the large customer prohibition, CUB
18 recommends that the Commission implement CUB's marginal cost methodology that
19 incorporates conservation as a marginal resource. Moreover, CUB encourages the
20 Commission to consider the language and spirit of SB 838 and find the "benefit" of
21 conservation funding to be low cost conservation resources it brings to the system. This
22 treatment is consistent with contemporary views on energy efficiency and would remove
23 the "industrial benefit cap" that was designed as a proxy for the large customer benefit

1 prohibition. In doing so, the Commission would remove the impediments to achieving
2 all available energy efficiency, and would ensure Oregon's trajectory in low cost, clean
3 energy. Because this would proposal could cause rate shock, the Commission should
4 require that 90% of the effect of it on each customer class be offset by the Customer
5 Impact Offset.



Citizens' Utility Board of Oregon

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Re: A Review of the SB 838 Automatic Adjustment Clause
From: Jason Eisdorfer, attorney, Citizens' Utility Board

Section 13(3) of SB 838 directs the Public Utility Commission to establish an automatic adjustment clause or other mechanism to allow timely recovery of prudently-incurred costs related to the construction or acquisition of renewable energy resources and related transmission. The provision further states that, upon request, the PUC shall grant a hearing and other specified procedural rights.

Why have an automatic adjustment clause at all?

Renewable energy resources generally come in smaller increments than fossil-based generation resources. We anticipate that, in meeting the SB 838 renewable energy standards, the utilities will be continuously adding modestly-sized investments on an ongoing basis. If the utility were to wait to recover the costs of these resources until a general rate case, either a) there would be a considerable time gap between a utility's investment on behalf of customers in a renewable resource, and the utility's ability to recover the cost of that investment, or b) the utility will have multiple general rate case filings every year. Since a general rate case can last nine to eleven months and requires an enormous expenditure of resources from the utility, the agency and the intervenors, overlapping rate cases from multiple utilities would lead to chaos.

Furthermore, the utilities are currently operating under annual automatic adjustment clauses to pass through variable power costs for fuel and purchased power which were set up to facilitate industrial customer access to non-utility market power. Since adding no-fuel renewable energy resources lowers a utility's variable costs, it seems incongruous to use an automatic adjustment clause to pass through lower variable power costs to customers, but not to allow the utility to recover the costs of the renewable resource that led to the lower power costs.

Are the safeguards in SB 838 sufficient to protect ratepayers?

Absolutely. Even without the guaranteed hearing language in Section 13(3), the PUC's automatic adjustment clause process is safe for consumers. CUB tracks the purchased gas adjustment, an automatic adjustment clause currently in use, for the natural gas utilities. When an issue of prudence comes up, the schedule contemplates a full process. (Such a proceeding is currently in progress and the schedule called for five rounds of testimony and a hearing over a six month period.) Since Section 13(3) only applies to prudently-incurred costs, a full process with all procedural rights is assumed. The language in 13(3) states explicitly that a hearing must be held if requested. This explicitly kicks in all the applicable procedures and rights found in the hearing procedure section of the laws relating to the PUC, found in ORS 756.518 to 756.610.

Does the automatic adjustment clause mean the utility will never have another general rate case where other costs can be examined?

Of course not, unless the utility wants to go bankrupt. Section 13(3) allows for the timely recovery of renewable energy sources only. All other costs can only enter rates either through currently existing automatic adjustment clauses or through a general rate case. The fear is that a utility will continue to recover costs through the automatic adjustment clause and never again subject itself to a general rate case where intervenors can examine other costs. A utility that foregoes a general rate case and relies only on the automatic adjustment clause in SB 838 for recovery of costs will very soon find itself significantly under-recovering its costs. A case in point is PacifiCorp's latest draft integrated resource plan. The plan shows that the utility plans to add costly transmission investments to rates in 2010, two natural gas generating units in 2011, and three fossil fuel units in 2012. This does not include hydro relicensing costs and emissions technology investments for its current fleet of resources. The renewable energy investments will be dwarfed by these other costs, and no utility in its right mind would choose to have its shareholders pay these costs by not filing a general rate case.

What does a reference to "a contested case proceeding under ORS chapter 756" mean?

I have no idea. The term contested case does not appear in ORS chapter 756, and ORS chapter 756 includes all kinds of provisions from hearings procedures to PUC general powers to PUC fees. Therefore, this phrase has no clear legal meaning.

November 19, 2007

TO: Lowrey Brown
Citizens Utility Board

FROM: Doug Kuns
Manager, Pricing & Tariffs

PORTLAND GENERAL ELECTRIC
Advice No. 07-25
PGE Response to CUB Data Request
Dated November 5, 2007
Question No. 001

Request:

Please provide a copy of all correspondence with the Energy Trust and a list of all meetings PGE representatives had with Energy Trust Representatives regarding this advice filing. For meetings, please provide the date, the attendees, and the topics discussed.

Response:

In discussion on November 7, 2007, PGE and CUB agreed that PGE would limit this response to discussion related to correspondence and meetings critical to the subject Advice Filing.

PGE worked extensively with the Energy Trust of Oregon (ETO) as we developed this filing. PGE's IRP process brought PGE and the ETO together to explore possibilities for incremental EE support. Principal design objectives included identifying where cost effective support could be uniquely applied with PGE funds for PGE customers.

Many work sessions with the Energy Trust's Director of Strategic Planning (Fred Gordon) and his staff resulted in a refined Market Assessment of Energy Efficiency potential and in a proposed process for PGE's facilitation of incremental energy efficiency. Presentations were developed and made to the Energy Trust's management group and Energy Trust Board's advisory committee (example provided in Attachment 001-A, last modified on October 23, 2006), which later became a presentation provided to OPUC (provided as Attachment 001-B, last modified January 22, 2007). While Attachments 001 –A and 001-B were marked confidential when first created, PGE now considers them not confidential.

PGE Response to CUB Data Request No. 001

November 19, 2007

Page 2

A pre-filing meeting was held July 30, 2007 with the Energy Trust, OPUC staff, CUB and other stakeholders. Several follow-up meetings with ETO and other stakeholders were held to establish a definition for those customers eligible for exemption from incremental energy efficiency expenditures and to craft a process to ensure that they would not benefit via reallocation of existing funds. A key meeting was held on August 9, with follow-up emails on August 14 & 21. Attachment 001-C provides an email from ETO with a draft proposal for tracking expenditures for efficiency above and below 1 MWh per customer (email dated August 14, 2007). The proposal shows that the administrative system assures that SB838 efficiency support flows only to customers providing the funding.

Coordination meetings between the Energy Trust and PGE were held in September and October to plan for 2008. Two more are scheduled for November. The schedule follows:

Date	Parties	Sector	Topic
09/11/07	PGE/ETO	Residential	Planning Meeting 2008
09/14/07	PGE/ETO	Business	Planning Meeting 2008
09/26/07	PGE/ETO	Multifamily	Planning Meeting 2008
10/26/07	PGE/ETO	Business	Planning Meeting 2008
11/16/07	PGE/ETO	Residential	Planning to Finalize
11/20/07	PGE/ETO	Business	Planning to Finalize

In addition, monthly coordination meetings took place on August 8, September 13 and October 11 which included Joe Barra and Lauren Shapton (PGE), along with Steve Lacey and Jan Schaeffer (ETO). While the filing was discussed during these coordination meetings, meeting notes were not published.

On October 26th, PGE's proposed process for facilitation of incremental energy efficiency was extensively discussed. Roch Naleway, Lauren Shapton and Verlea Biggs attended for PGE. Greg Stiles and Jessica Rose attended for ETO. Refinements to the process resulted. Attachment 001-D provides the October 25 version of the process flow diagram. Attachment 001-E provides the November 6 version of the process flow diagram.

Interim versions of the advice filing were sent to Steve Lacey on October 15. On November 7, 2007, Margie Harris of the ETO also attended the monthly coordination meeting and provided additional input to PGE's proposed process for facilitation of incremental energy efficiency. Attachment 001-F provides the November 7 version, which is PGE's current proposed process.

Advice No. 07-25
Attachment 001-A

Example Presentation to ETO Management and Advisory Committee
(last modified October 23, 2006)

Advice No. 07-25
Attachment 001-B

Presentation provided to Oregon Public Utilities Commission
(last modified January 22, 2007)

Advice No. 07-25
Attachment 001-C

Email from ETO with attached draft proposal for tracking expenditures
for efficiency above and below 1 MWa per customer

Advice No. 07-25
Attachment 001-D

Process Flow Diagram at October 26, 2007

Advice No. 07-25
Attachment 001-E

Process Flow Diagram at November 6, 2007

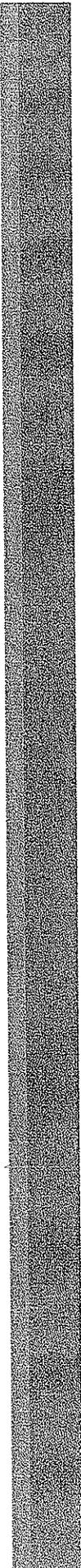
Advice No. 07-25
Attachment 001-F

Process Flow Diagram at November 7, 2007

Energy Efficiency Plan

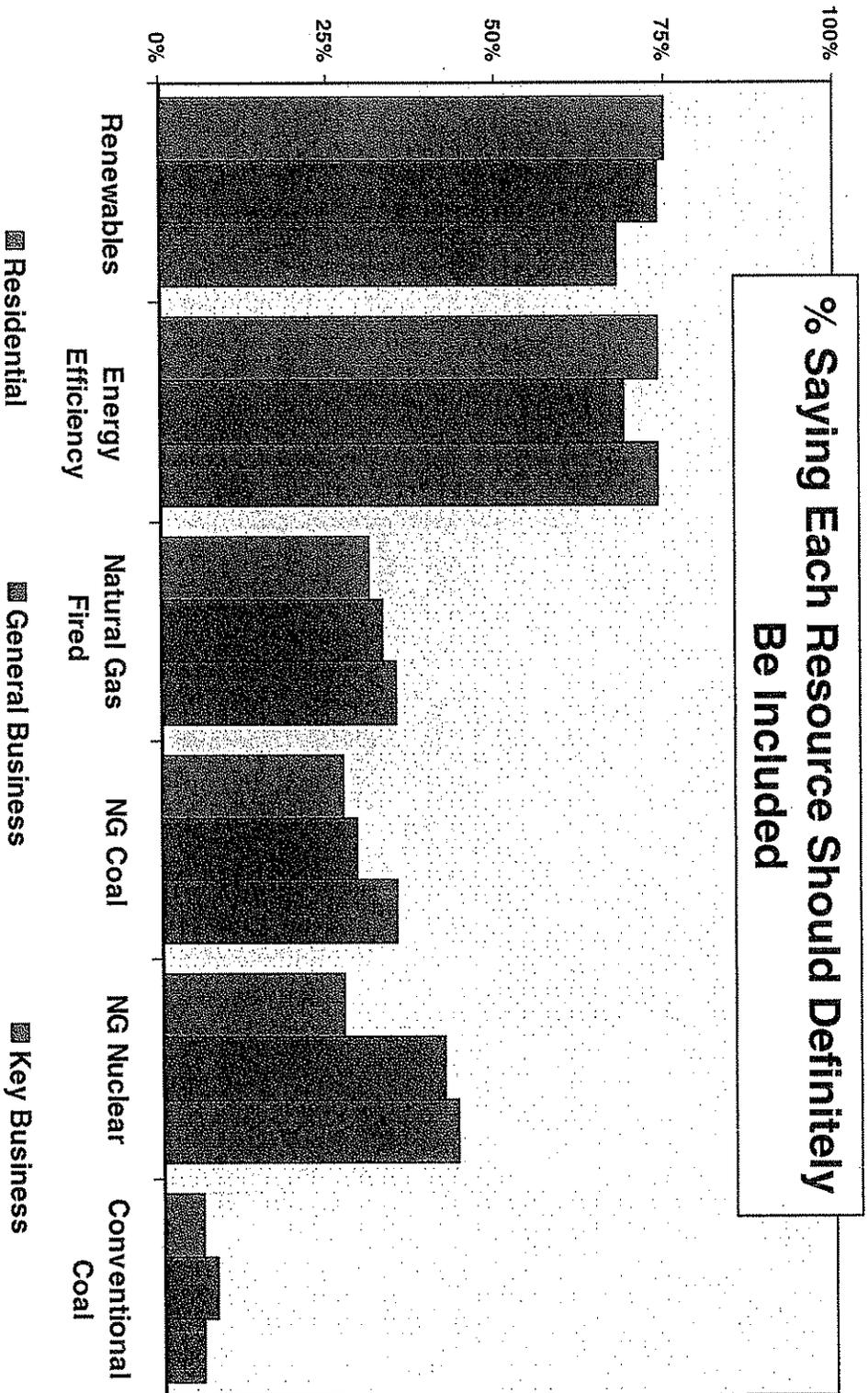
Assessment & Recommendation

Why Should PGE Pursue EE?



- Our customers prefer energy efficiency as a resource.
- Customers expect PGE to help them manage their energy bills.
- More cost-effective EE is available than currently being captured.
- EE is a low risk, 'least cost' resource.

All Customers Express A Strong Preference for the Inclusion of EE in Future Supply Portfolios



Confidential

Achievable MWa per Customer Class (thru 2012)

Energy Efficiency Market Assessment
PGE Service Area
MWa

	Technical Potential (per ETO assessment)	ETO Achievable Potential (per ETO Assessment)	PGE Achievable Potential (per PGE Assessment)	ETO Forecast Acquisition (incl. LI, Schools, Background)	Gap
Total	288	210	165	121	44

The resulting gap is the estimated achievable MWa over and above existing ETO, Schools (ODOE) and Low Income programs.

The “Gap” consists primarily of unfunded EE from the Commercial sector, followed by Residential. A small amount of Industrial EE was also identified among small and mid-size Customers.

Confidential

ETO Markets

Situation Analysis

- Demand has exceeded available funding.
- Vendors are relied upon to market programs, customers get an incomplete view of their options.
- PGE has developed a very strong relationship in partnering with the ETO to bring customers to their programs.
 - The ETO is interested in pursuing EE opportunities in collaboration with PGE.
 - PGE's Energy Experts provide large customers with EE information and facilitate customers reaching ETO programs.
- Small/Mid-Size Business segment has been hard to reach and left largely untapped.
- Residential programs are geared to homeowners with disposable income.
 - Moderately low income households (61-80% of median income) often are unable to afford programs that require a substantial cash outlay to participate.

ETO Markets Opportunities



- Provide additional funding for ‘oversubscribed’ programs.
- Actively promote/advertise ETO programs.
- Fund “Energy Champions” at larger customers to encourage EE.
- Hire and train additional Energy Experts to support SMB and Residential.
- Work with ETO to expand programs to renters, manufactured homeowners and moderately low income households (e.g. Energy Service Charge on PGE bill).

ETO Markets

Funding Requirements

- Estimated costs through 2012: \$59 million
 - \$55.8 million to fund/expand programs
 - A substantial portion should be designated for under-served markets
 - \$1.1 million to advertise/promote programs
 - \$.9 million to support “Energy Champions” with industrial and commercial customers
 - \$1.2 million for 4 FTEs to work on staff as Efficiency Experts with SMB customers
 - These Efficiency Experts will work proactively with business sectors that have been hard to reach.

Schools

Situation Analysis

- Funds are allocated by student population, not EE potential (e.g. age of the building, deferred maintenance).
- Spending varies widely - some districts surpassing their 10-year allocation, others unsuccessful at getting projects underway.
- The audits previously conducted are becoming outdated.
- No funding for EE education until all measures with 50-year simple payback are completed (prior to SB1149, PGE worked with schools on classroom and maintenance staff education).

Schools

Opportunities

- Provide additional funding for schools in our service territory to capture EE opportunities identified in audits.
- Fund project managers for ESDs having difficulty in getting projects underway.
- Provide training and education to:
 - District maintenance staff to maintain effectiveness of improvements
 - Students and faculty
- Provide technical assistance to help districts achieve Energy Star certification or other similar “state of the art” designations.

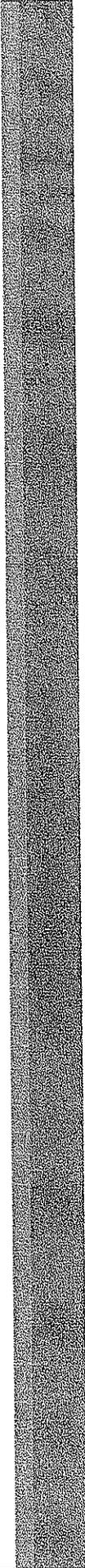
Schools

Funding Requirements



- Estimated costs through 2012: \$6.7 million
 - \$4 million to ODOE to cover existing shortfalls
 - \$.9 million for 2 FTEs to help get EE projects implemented
 - \$1.8 million for provision of services to keep EE practices continuing in districts

Low Income Programs Situation Analysis



- Spending varies by county depending on the Community Action agency doing the work.
- Money is not spent as fast as it comes in.
- Weatherization programs typically do not have the financial benefit to entice landlords.

Low Income Programs Opportunities



- Facilitate delivery of weatherization services through counties/agencies within service territory.
- Help target energy assistance programs to “can’t pay” customers.
- Provide training and education.
- Offer landlords EE packaged with incentives such as advanced metering or property management services.

Low Income Programs Funding Requirements

- Estimated costs through 2012: \$4.2 million
 - \$3.0 million for 8 FTEs (5.5 would be incremental) to help counties/ agencies complete low income weatherization.
 - \$0.2 million for EE training to all households receiving weatherization assistance.
 - \$1 million for developing a program for low income landlords, bundling advanced metering, property management services and EE.

Schedule 89 Customers

- SB1149 caps the PPC for Large Industrials at 3%.
- ICNU contends they will pursue EE on their own.
- Our market assessment revealed no incremental opportunities for EE over and above the ETO forecast.

Recommendation:

Exclude Schedule 89 customers from new initiatives and associated costs.

EE Rate Impacts

- Assumptions:
 - \$14 million per year for 9 MWa beginning 2008 and continuing through 2012
 - Customers > 1MW will be exempt from the increase
- Basic analysis:
 - Using the current period expense treatment, rates would increase about 1.3%
- Recommendation:
 - Implement a supplemental adjustment schedule that recovers in a balancing account amounts received from customers in order to match cost recovery with EE expenditures.
 - Similar to PPC, amounts received are transferred to EE

Requirements



- Prerequisites to moving forward
 - Near zero risk of non-recovery of all costs
 - Margin recovery on lost sales
 - A strong say in how the money gets spent

Recommended Path Forward

- Approach selected external stakeholders:
 - Energy Trust
 - Customer groups, utilities, OPUC Staff, Oregon Department of Energy, counties/CAP agencies
 - Environmental groups, opinion leaders, legislators
- Include achievable EE in the Q1'07 IRP filing
- Secure legislative approval of EE expense inclusion in rates
- File tariff



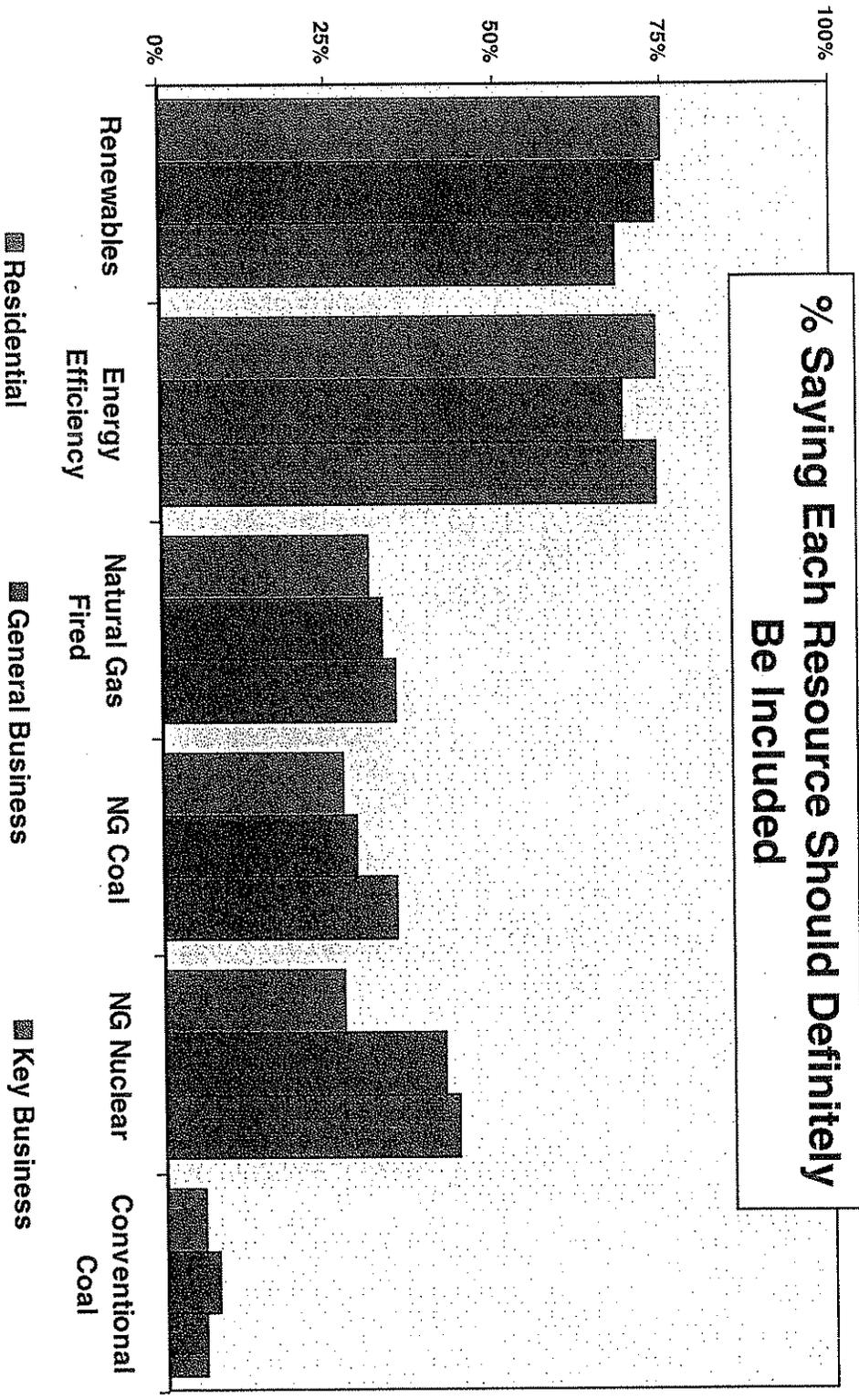
Energy Efficiency Plan

Assessment & Recommendation

Why Should PGE Pursue EE?

- Our customers prefer energy efficiency as a resource.
- Customers expect PGE to help them manage their energy bills.
- More cost-effective EE is available than currently being captured.
- EE is a low risk, 'least cost' resource.

All Customers Express A Strong Preference for the Inclusion of EE in Future Supply Portfolios



Confidential

Achievable MWa per Customer Class (thru 2012)

Energy Efficiency Market Assessment PGE Service Area MWa

	Technical Potential (per ETO assessment)	ETO Achievable Potential (per ETO Assessment)	PGE Achievable Potential (per PGE Assessment)	ETO Forecast Acquisition (incl. LI, Schools, Background)	Gap
Total	288	210	165	121	44

The resulting gap is the estimated achievable MWa over and above existing ETO, Schools (ODOE) and Low Income programs.

The “Gap” consists primarily of unfunded EE from the Commercial sector, followed by Residential. A small amount of Industrial EE was also identified among small and mid-size Customers.

ETO Markets

Situation Analysis

- Demand has exceeded available funding.
- Vendors are relied upon to market programs, customers get an incomplete view of their options.
- PGE has developed a very strong relationship in partnering with the ETO to bring customers to their programs.
 - The ETO is interested in pursuing EE opportunities in collaboration with PGE.
 - PGE's Energy Experts provide large customers with EE information and facilitate customers reaching ETO programs.
- Small/Mid-Size Business segment has been hard to reach and left largely untapped.
- Residential programs are geared to homeowners with disposable income.
 - Moderately low income households (61-80% of median income) often are unable to afford programs that require a substantial cash outlay to participate.

Confidential

ETO Markets Opportunities

- Provide additional funding for ‘oversubscribed’ programs.
- Actively promote/advertise ETO programs.
- Fund “Energy Champions” at larger customers to encourage EE.
- Hire and train additional Energy Experts to support Small & Mid-size Business and Residential.
- Work with ETO to expand programs to renters, manufactured homeowners and moderately low income households (e.g. Energy Service Charge on PGE bill).

Confidential

ETO Markets

Funding Requirements

- Estimated costs through 2012: \$59 million
 - \$55.8 million to fund/expand programs
 - A substantial portion should be designated for under-served markets
 - \$1.1 million to advertise/promote programs
 - \$.9 million to support “Energy Champions” with industrial and commercial customers
 - \$1.2 million for 4 FTTEs to work on staff as Efficiency Experts with SMB customers
 - These Efficiency Experts will work proactively with business sectors that have been hard to reach.

Schools

Situation Analysis

- Funds are allocated by student population, not EE potential (e.g. age of the building, deferred maintenance).
- Spending varies widely - some districts surpassing their 10-year allocation, others unsuccessful at getting projects underway.
- The audits previously conducted are becoming outdated.
- No funding for EE education until all measures with 50-year simple payback are completed (prior to SB1149, PGE worked with schools on classroom and maintenance staff education).

Confidential

Schools Opportunities

- Provide additional funding for schools in our service territory to capture EE opportunities identified in audits.
- Fund project managers for ESDs having difficulty in getting projects underway.
- Provide training and education to:
 - District maintenance staff to maintain effectiveness of improvements
 - Students and faculty
- Provide technical assistance to help districts achieve Energy Star certification or other similar “state of the art” designations.

Schools

Funding Requirements



- Estimated costs through 2012: \$6.7 million
 - \$4 million to ODOE to cover existing shortfalls
 - \$.9 million for 2 FTEs to help get EE projects implemented
 - \$1.8 million for provision of services to keep EE practices continuing in districts

Low Income Programs Situation Analysis

- Spending varies by county depending on the Community Action agency doing the work.
- Money is not spent as fast as it comes in.
- Weatherization programs typically do not have the financial benefit to entice landlords.

Low Income Programs Opportunities

- Facilitate delivery of weatherization services through counties/agencies within service territory.
- Help target energy assistance programs to “can’t pay” customers.
- Provide training and education.
- Offer landlords EE packaged with incentives such as advanced metering or property management services.

Low Income Programs Funding Requirements

- Estimated costs through 2012: \$4.2 million
 - \$3.0 million for 8 FTEs (5.5 would be incremental) to help counties/ agencies complete low income weatherization.
 - \$0.2 million for EE training to all households receiving weatherization assistance.
 - \$1.0 million for developing a program for low income landlords, bundling advanced metering, property management services and EE.

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Schedule 89 Customers

- SB1149 caps the PPC for Large Industrials at 3%.
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Recommendation:

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 - Similar to PPC, amounts received are transferred to EE

Requirements

- Prerequisites to moving forward
 - Near zero risk of non-recovery of all costs
 - Margin recovery on lost sales
 - Agreement on a process for how the funds will be allocated

Recommended Path Forward

- Approach selected external stakeholders:
 - Energy Trust
 - Customer groups, utilities, OPUC Staff, Oregon Department of Energy, counties/CAP agencies
 - Environmental groups, opinion leaders, legislators
- Include achievable EE in the Q1'07 IRP filing
- Secure legislative approval of EE expense inclusion in rates
- File tariff

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Date: Tuesday, August 14, 2007 6:46 PM
Subject: Proposal for tracking expenditures for efficiency above and below 1 AMW/customer
CC: "Margie Harris" <margie@energytrust.org>, "John Volkman" <John.Volkman@energytrust.org>, "Linda Rudawitz" <Linda.Rudawitz@energytrust.org>, "Jill Steiner" <jill.steiner@energytrust.org>, "Matt Braman" <matt.braman@energytrust.org>

Pursuant to our last working group meeting at the PUC, I have met with PGE and Pacificorp to develop a proposal for how Energy Trust will assure that new efficiency funds under SB838 will go to the customers, as a group, who provide the funds. The attached proposal was developed with the active participation of PGE and Pacificorp. Due to time limitations and my illness, they have not seen the modest revisions in this draft. I hope and believe that the revisions are consistent with their preferences as stated in our meeting last Thursday. I will take responsibility for any needed corrections.

This document presents the proposal in three levels of detail- first in concept, then a summary of tasks to make it happen, then a detailed nuts-and-bolts description of what ET and the utilities would need to do under each task. I hope the detailed description can be taken as approximate, as the details will likely evolve slightly as we try to execute them. The details were developed to test the feasibility of the task set, to show that the method is reasonable and fair and as precise as practical, and to clarify likely assignments for utilities, ET planning staff and ET program operations.

If this proposal has the principles about right, I would be happy to take any further comments as needed to finalize it as soon as possible, as this agreement is the first step on a critical path to developing a filing. Agreement on these principles will define analytic work needed at the utilities and Energy Trust. I look forward to your comments.

If you think it necessary to meet individually or collectively to fully understand or to finalize this, let me know and I will work with the PUC staff to arrange it as quickly as possible.

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STRAW MAN PROPOSAL FOR ADDRESSING REQUIREMENTS IN SB838 NOT TO INCREASE EFFICIENCY EXPENDITURES ON CUSTOMERS > 1 AMW

Summary: This is a draft proposal for an administrative system that assures that SB838 efficiency funding does not result in additional funding for customers who are not providing the funding. Specifically it assures that the Energy Trust (ET) will not, on a cumulative basis, spend a larger percentage of SB1149 money on incentives for all customers over 1 AMW than it expected to spend prior to the passage of SB838, This will not be more than it has spent on these customers historically. Additionally, SB838 money will not go directly to equipment over 1 AMW. Compliance is assured through the following system:

- A control percentage of spending > 1 AMW is established by reviewing the data for the past three years and reviewing forecasts of spending.
- If ET incentive spending for customers > 1AMW exceeds this percentage over a cumulative period (from the beginning of SB838 efficiency funding for that utility to the end of the last calendar year) then ET would be required to reduce spending on larger projects in the ensuing two calendar years to bring the cumulative total back into balance with the control percentage. This assures fairly while minimizing accounting costs. This system also provides the flexibility for the Energy Trust to pursue large, low cost projects by making balancing adjustments in later years.
- Cumulative compliance with the historic average is analyzed annually at the time of the annual report, and is also forecast each year as part of the budget process.

PUC performance metrics would be based on the combined funding from SB1149 and SB838. However, as needed, ET would describe cost and savings under each bill.

Basic Tasks. Steps to achieve these tasks are introduced in this section and detailed in the next section

1. **Define Boundary.** "1 AMW Per meter, totalized meter, or site or what?" We propose that to start the "customer" be defined as the meter so that the process can begin, but customers can propose "sites" consistent with the self-direct definition and utilities will certify and use these. Sites currently certified sites for self-direct are defined as "customers" from the beginning. An approach to estimation for new buildings is also developed in the detailed discussion below.
2. **Utilities will Project Load & Resource Potential from Customers Smaller than 1 AMW.** As requested ET can help utilities with the analysis. ET will need load data provided by utilities once the boundary definition is set, to analyze efficiency resources..
3. **Describe Historic ET Spending Patterns.** ET will develop an analysis of historic ET incentive funding by <1 and > 1 AMW, with data from utilities as needed.
4. **ET Develops Control Percentage.** This is the maximum percent of SB1149 funding to go to meters > 1 AMW. Two options for doing this are presented in the next section.
5. **ET will develop and Implement a Management Approach.** ET will develop systems to assure that over a multi-year period overall funding for customers >1 AMW does not exceed these trend forecasts, and to correct for temporary overages.
6. **Reporting.** ET will report on how it will stay within these bounds in two ways:
 - a. As part of our budget process, we will forecast spending by program above and below 1 AMW.
 - b. As part of our annual report process, we will report on how it went for the prior year and cumulatively from 2008 forward.
 - c. If required by the legislature we will also report on spending and savings separately for SB838 funds and SB1149 funds. However the separation will be approximate, and will require agreement on assumptions.

Detailed Tasks:

1. **Define Boundary.** We propose that to start the “customer” be defined as the meter so that the process can begin, but customers can propose “sites” consistent with the self-direct definition and utilities will certify and use these. Customer with currently certified sites for self-direct would be defined in their entirety as “customers” from the beginning. This approach is proposed because
 - It is consistent with the self-direct program and thus will minimize customer confusion.
 - It also prevents utilities from needing to perform all the analyses to certify sites prior to the proposal for new funding, which would cause significant delay.
 - It also avoids the confusion which would occur if an analysis would require splitting efficiency measures between meters. Some measures save energy on multiple meters, and some customers do not know what loads are on which meter.

Another issue is what to do with new buildings. The utilities have to figure this out to classify the buildings for rates- so we assume that ET will follow their lead. Options include:

- a. *Treat them all as <1 AMW since their historic load is zero* (convenient but not equitable; they would reap the benefits and not pay)
- b. *Use the projected connected load/meter that they provide to the utility x a standard load factor.* We could brainstorm with the utilities what the standard load factors are for various building types. Utilities need to classify by connected load anyway, the only new part is the load factor.

Energy Trust may contract with some facilities for efficiency years before there's a utility capacity estimate or rate classification. We sometimes may need to rough out a pre-guess at the classification for purposes of forecasting spending in the two groups. Mistakes are not that big a deal as long as we can correct later.

2. **Utilities will Project Load & Resource Potential Below 1 AMW.**

- a. Utilities will provide total load by class of customer and utility < 1AMW and > 1 AMW for 2006.
- b. Utilities will apply this data to define the load in the rate class or other rate discriminator for the new charge..

Utilities will also use this to update their their resource assessment to develop potential savings for each group by utility. This will influence the size of funding (depends on timing) Energy Trust will assist as requested.

3. **Describe Historic ET Spending Patterns.** Identify the % of ET incentive dollars in past three years which are >1 AMW per customer.. If the proposal above is accepted and customers will eventually be defined as sites consistent with the self-direction definition, ET will use functional sites as the basis for analysis, ET will

- a. Provide utilities with a list of participating customers, all of whom have signed releases allowing access to energy use information.
- b. Ask utilities to identify the subset with meters that fit the “large” definition”.
- c. To provide energy use data consistent with the existing data-sharing agreement for all meters.
- d. For sites with a “large” meter, Energy Trust will assume that the entire site will eventually be certified as “large” and will allocate the entire incentive expenditure for site to the “large” category.

ET will summarize the percent of SB1149 efficiency expenditures by year and for the total three year period which went to customers >1 AMW, both in total and by program. The total three-year all-program percentage would be used as the “control percentage”. Data by program or year would be used only to help in forecasting and program planning.

4. **ET Develops Control Percentage.**

- a. **Adjust for Forecast.** In early 2007, ET forecasted trends in spending by sector through 2012. The historic percentage could be adjusted for these trends. This would modestly decrease the amount of spending allowable for customers > 1 AMW. This would make the control percentage consistent with prior intent.
- b. Forecast only runs through Feb, 2012. After that point, the control percentage would be frozen.

5. **ET will develop and implement a Management Approach.**

- a. Track % of ET incentive \$ in each year which is going to customers > 1AMW.
 - i. ET Develops a field in Fast Track database for utility rate class, which should track MW status. This field should be set up to record successive annual reclassifications provided by utilities.
 - ii. Develop crystal report or other reporting tool which analyzes \$ of incentives going to > 1 AMW by program. Report should work for both forecasting and reporting after the fact..
- b. Train PDCs and/or ATACs (ET contractors who work with the site) to identify when a project may be on a meter>1 AMW, and then identify the meter and have ET check the rate. ET must then directly acquire the load data, which is now done by the Program Management Contractor.
 - i. This will involve some back-and-fill for projects where the project or study is already approved, but the project will be completed in 2008 or beyond.
 - ii. This will need to become a key element of quality control and acceptance procedures for projects.
- c. Pro Rate Site Incentives to have the correct amount in < 1AMW and > 1AMW categories in the tracking system. . For customers who have projects covering multiple meters but have not certified a site. (We hope this is rare) We will need to train contractors to define a site consistently with the utility definition, and identify all meters. The contractor will work with ET personnel to come up with a pro-rate between large and small meters for the site. This will not impact how ET treats the site, but will influence allocation of costs from that site to large vs. small.
- d. **Alternative to c: Identify Projects by Meter.** For sites with large and small meters, require consumers and contractors to identify new potential projects by meter, as best they can.
 - i. Where a measure serves more than one meter, the audit contractor and customer should estimate savings by meter the best they can, and use that to pro-rate costs. This will be problematic as a policy and not recommended because customers may not know what equipment is on which meter.

6. **Reporting**

- a. **Savings reporting** by SB838 versus SB1149 would be based on the same data and methods describe above. Once we track and pro rate we can report
- b. For **cost reporting**, there are two options:
 - i. **Option 1.** Assume that average cost/kwh is the same for both piles of money. For overall reporting, assign costs in proportion to savings by program. This is simple, but would result in reports of increased cost/kWh for SB1149, and probably understate costs for SB838. This is not recommended.
 - ii. **Option 2.** Assume that cost/kwh for SB 1149 would remain same as 2007. Allocate costs above (SB1149 new kwh x 2007 costs) this level to SB838. This is recommended.
 1. Detail issue: use 07 forecasts or 06 annual report? Maybe 06 to prevent dust-up when 07 is not exactly as predicted.

UE 283 – CERTIFICATE OF SERVICE

I hereby certify that, on this 13th day of August, 2014, I served the foregoing **REBUTTAL TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UE 283 upon each party listed in the UE 283 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and five copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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Respectfully submitted,



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