

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 20, 2016**

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2017

DATE: December 5, 2016

TO: Public Utility Commission

FROM: *SG* Scott Gibbens and *MM* Matt Muldoon

THROUGH: *J* Jason Eisdorfer and *JC* John Crider

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UE 308/Advice No. 16-21) Requests revisions to Schedules 77, 125, and 128 to reflect final net variable power costs for 2017.

STAFF RECOMMENDATION:

The Public Utility Commission (Commission) should approve the compliance filing submitted by Portland General Electric (PGE) in compliance with Order No. 16-419 and allow the tariff sheets filed in Advice No. 16-21 to go into effect on January 1, 2017, with less than statutory notice.

DISCUSSION:

Issue

Whether the Commission should approve PGE's compliance filing implementing changes to its rates approved by the Commission in Order No. 16-419.

Applicable Rule or Law

Compliance filings are not defined in statute or rule, but are a mechanism used to implement a rate change resulting from a Commission decision.¹

The Commission issued Order No. 16-419 regarding PGE's annual update to its net variable power costs on October 27, 2016. Order No. 16-419 required PGE to file revised tariffs consistent with the order with rates to be effective no sooner than January 1, 2017.

¹ See Order No. 08-118.

Analysis

Initial Filing

On April 1, 2016, PGE filed its 2017 net variable power cost (NVPC) projection, consistent with the terms of its Schedule 125, which implements the Company's Annual Update Tariff (AUT). The AUT is designed to allow PGE to revise customer rates to reflect those changes in its projected NVPC resulting from new information. The filing included direct testimony in support of the 2017 NVPC projection of \$499.8 million (excluding PGE's forecast of federal production tax credits), or approximately \$26.34 per megawatt-hour (MWh). This would have translated to an overall rate reduction of approximately \$1.80 per MWh from the final 2016 projected power cost. The primary factors responsible for the reduction were lower contract costs and increased market purchases. Inclusive of PGE's forecast of federal production tax credits, PGE's NVPC forecast was \$423.5 million.

Because PGE filed its 2016 NVPC independently of a general rate revision the Company is allowed, per Order No. 08-505, to update model parameters, including:

- a) Forward Price Curves;
- b) Load Forecasts;
- c) Heat rates;
- d) Pacific Northwest Coordination Agreement Headwater Benefit Study;
- e) Contracts for wholesale power and power purchases and sales;
- f) Wind availability forecast;
- g) PURPA contract expenses; and
- h) Maintenance and Forced Outage rates.

UE 308 Proceedings

Following PGE's initial filing, the issues were bi-furcated so that issues relating to PGE's request for rate recovery of a proposed long-term investment in natural gas reserves could be addressed independently and on a different procedural schedule from all other issues related to PGE's update to its NVPC (AUT Issues). Staff, the Citizens' Utility Board of Oregon (CUB), and the Industrial Customers of Northwest Utilities (ICNU) filed testimony related to the AUT Issues on June 20, 2016 and subsequently filed testimony related to the long-term gas reserve investment in August 2016.

On June 27, 2016, PGE, Staff, CUB, and ICNU held a settlement conference. Thereafter, PGE filed a motion to suspend the procedural schedule related to the AUT Issues, indicating that the parties had reached an agreement in principle. The administrative law judges granted the motion.

On August 18, 2016, PGE filed a stipulation and supporting testimony joined by Staff, CUB, and ICNU. The stipulation settled all issues raised in the proceedings including:

- a) Portland Hydro Project (PHP) Power Purchase Agreement (PPA) Expiration;
- b) PHP PPA Price;
- c) Boardman Rail Transportation Contracts;
- d) Coyote Forced Outage Rate;
- e) Bonneville Power Administration Transmission Rates;
- f) Energy Imbalance Market Benefits and Costs;
- g) Wind Day Ahead Forecast Error; and
- h) California-Oregon Border Trading Margins.

The Commission issued Order No. 16-419 on October 27, 2016, adopting the AUT Issue stipulation and requiring the Utility to complete a final MONET run by November 15, 2016, to finalize estimated power cost amounts.²

The Annual Update Tariff includes five periodic updates which revise load forecasts, price forecasts, and contracts as they are realized. Each change in parameters produces a revised net variable power cost by updating the MONET dispatch tool and running the model again for the test year.

MONET Updates

On July 15, 2016, PGE updated contract and electric and gas forward curves as of June 2, 2016. NVPC forecast for 2017 decreased roughly \$18.8 million from the April 1, 2016, initial filing to approximately \$404.7 million. The decrease is primarily attributable to a reduction in the power cost impacts associated with PGE's long term gas hedging proposal.

On September 30, 2016, PGE performed a MONET update based on contracts and electric and gas forward curves as of September 1, 2016. PGE's NVPC forecast for 2017 fell to approximately \$397 million, a decrease of roughly \$7.7 million from the July 15, 2016 update filing. This decrease was primarily due to a reduction in the power cost impacts associated with updates to PGE's load forecast. PGE's load forecast decreased from 2,166 MWa to 2,140 MWa.

On November 4, 2016, PGE updated contracts and electric and gas forward curves as of October 19, 2016. NVPC forecast for 2017 decreased to \$391.7 million, a decrease of roughly \$5.2 million from the September 30, 2016 update filing. The decrease was driven by the net impact of a lower cost of service load forecast, coal mining and

² The Commission also denied PGE's request to incorporate costs related to the proposed long-term natural gas reserve investment into rates in Order No. 16-419.

transportation contract cost updates, and the update to include electric and gas forward price curves. The cost of service load forecast decreased from approximately 2,140 MWa to approximately 2,103 MWa, reflecting the outcome of September's long-term direct access opt-out window.

On November 15, 2016, PGE performed the final update of its 2017 NVPC forecast. This update included 2017 electric and natural gas forward prices based on a five-day average of the forward curves on November 1, 2016 through November 4, 2016, and November 7, 2016. The final NVPC forecast totaled \$382.9 million, a reduction of approximately \$8.8 million from the November 4, 2016 update filing. The change in unit NVPC inclusive of revenue sensitive costs and changes in Production Tax Credits is a decrease of approximately \$58.2 million.

Effect of Docket UE 308/Order No. 16-419 and Advice 16-21

On November 15, 2016 PGE filed Advice No. 16-21 and on December 7, 2016 filed replacement sheets updating Advice 16-21. Staff reviewed the filing, tariff schedule, and workpapers to ensure the proposed filing is accurately calculated and consistent with Commission policy and direction. In addition to Schedule 125, which updated NVPC, Advice 16-21 also updates Schedules 77, 128, 129 and a number of other sheets which are incidentally affected. These schedule changes are the result of the updated price of electricity derived from UE 308 as well as the long-term direct access participation coming through the September 2016 enrollment window. In total sixty sheets are updated through Advice No. 16-21, a list of which can be found on the first page of the Company's application.

As mentioned previously, UE 308 adjustments result in a decrease of \$58.2 million to NVPC. In addition, changes in System Usage, Distribution, and lighting fixture prices result in an increase of approximately \$5.9 million. The changes in Schedule 129 Long-Term Transition Adjustment yield a decrease of approximately \$4.0 million. Overall, the average Schedule 7 residential customer will see a reduction of \$3.11 per month to the PGE bill as a result of Advice filing No. 16-21.

Staff filed no information requests as the filing included all requisite documents to perform the analysis and review. The utility was responsive and forthright in answering clarifying questions. Staff identified several minor adjustments to several filed sheets, leading to PGE's promptly filed replacements. The updates included correction of revision numbering on Sheet No. 47-1 and 20 small luminaire pricing edits to four different sheets. Since these updated tariffs are filed within thirty days of the effective date, the Company also requested a waiver of less-than-statutory notice. Staff found that other than the few minor aforementioned changes, the filed rates achieved

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appropriate revenues based on PGE's cost estimates and the resulting rate calculations were correct and fair. Staff further finds that all of the revised sheets are correct.

The Company was provided a draft copy of this memo and has no edits or concerns.

Conclusion

Based on the review of PGE's application, Staff concludes that the proposed revisions are consistent with Order No. 16-419.

PROPOSED COMMISSION MOTION:

Approve the proposed revisions to Tariff P.U.C. OR 18, with less-than-statutory notice.

Advice No. 16-21