

ITEM NO. CA 8

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 16, 2017

REGULAR _____ CONSENT EFFECTIVE DATE June 1, 2017

DATE: May 8, 2017

TO: Public Utility Commission

FROM: Max St. Brown ^{MSB}

THROUGH: ^J Jason Eisdorfer and ^{I for MH} Marc Hellman

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Advice No. 2017-S4, Docket No. UE 252) Requests approval of steam sale agreement between PGE and JSH Farms, Inc.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should allow the application (Application) by Portland General Electric Company (PGE or Company) for a new steam sales agreement with JSH Farms to go into effect for service rendered effective on and after June 1, 2017.

DISCUSSION:

Issue

Whether the Commission should allow PGE's proposed steam sales agreement with JSH Farms to go into effect.

Applicable Rule or Law

ORS 757.005(1)(b)(E) exempts from regulation as a public utility the provision of heat, but not electricity, to a customer. JSH Farms is located in the Port of Morrow, outside of PGE's electricity service territory, thus PGE's steam sales contract with JSH Farms qualifies as the furnishing of heat, but not electricity, and therefore the service is exempt under ORS 757.005(1)(b)(E). However, pursuant to ORS 757.007(1), persons that are otherwise exempt from regulation under ORS 757.005(1)(b)(E) must still file with the Commission their contracts, and schedules establishing rates, for the provision of heating services. In this manner, the Commission regulates steam sales contracts pursuant to ORS 757.007. Under this statute, the Commission may suspend the

effective date of the contract for an additional period of not more than 120 days in order to determine the reasonableness of the contract, taking into consideration the services being provided, the costs and risks of service, the availability and costs of alternative forms of service and other reasonable considerations, including the impact of the contract on existing customers and on the public generally. ORS 757.007(2).

Analysis

On March 10, 2017, PGE filed its Application with the Commission for approval of a ten-year proposed steam sales agreement with JSH Farms. PGE recently made steam sales agreements with three other customers that were docketed as UE 231, UE 238, and UE 243.

On April 18, 2016, PGE met with Staff in Salem to discuss changes to the steam sale agreements. The proposed steam sale agreement makes the following five changes versus the current agreement:

- Extending the total contract period (with renewals) to ten years versus five.
- Adding a provision that the buyer can request an increase to the reserved base steam capacity, and that PGE can approve the request (no changes to any other terms & conditions), without filing for Commission approval.
- Adding a charge for large changes in steam use per minute (as they may impact Coyote plant operations). The charge can be avoided if the steam customer installs a steam block and control valve.
- Adding a capacity charge for the base steam capacity that is reserved. And adding tiered volumetric pricing for base steam, peak steam and excess peak steam.
- Holding neither party responsible for consequential damages. Previously only PGE was exempted.¹

In its Order No. 13-194, the Commission approved amendments to four steam sale agreements. Staff's recommendation in that Order was based on a review of four criteria of the agreements which are copied and pasted below from the Appendix of that Order:

1. The revenue from the steam sales covers relevant costs,
2. The contract is not discriminatory,
3. PGE customers will be held harmless, and
4. The contract incorporates opportunity-cost pricing where steam sales pricing is based on the market value of power that would otherwise be produced.

¹ See the Initial Application in Advice No. 2017-S4 at 1.

Staff confirmed that each of the changes versus the current agreement in the proposed steam sales agreement continued to meet each of the four criteria above from Order No. 13-194. Specifically,

1. The revenue from the steam sales in the proposed steam sales agreement is likely to cover relevant costs because PGE will collect fixed costs through the new capacity charge and will collect variable costs through the base, peak, and excess peak steam charges.²
2. The terms in this advice filing and Advice No. 2017-S1, Advice No. 2017-S2 and Advice No. 2017-S3 do not differ in a discriminatory way.
3. PGE customers are likely to be held harmless because steam is priced to recover the opportunity cost of foregone electricity sales and when needed the full capacity of Coyote Springs can be used for electricity generation (steam customers can be served from PGE's auxiliary boiler). The steam rates collect the full variable operating costs of the auxiliary boiler.³

Fixed charges are collected through the new capacity charge. The Company caps the capacity charge which could result in less than 100 percent of fixed costs being recovered. Nonetheless, Staff supports the cap on the capacity charge because without a cap, steam customers might purchase their own steam boiler and cease purchasing steam from PGE, thereby leaving electric ratepayers worse off.⁴

4. PGE's base, peak, and excess peak steam prices all incorporate opportunity-cost pricing.

The Company has reviewed this memo and has stated no objections.

Conclusion

Staff conducted an analysis of PGE's steam sales contract, using the ORS 757.007 criteria for "reasonableness." Staff found the agreement to be not discriminatory and likely to cover relevant costs and hold PGE electricity customers harmless, including by incorporating opportunity-cost pricing.

PROPOSED COMMISSION MOTION:

Allow PGE's Advice No. 2017-S4 to go into effect for service rendered effective on and after June 1, 2017.

UE 252_5-16-17

² Id at pages 16-19 of the Steam Sales Agreement.

³ Ibid

⁴ See Order No. 17-114 at page 2 of Appendix A.