ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 30, 2016

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __**September 1, 2016**__

DATE: August 24, 2016

TO: Public Utility Commission

FROM: George R. Compton GRC

JE MH MH for MD

THROUGH: Jason Eisdorfer, Marc Hellman, and Michael Dougherty

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. ADV 337/ Advice No. 16-10) Establishes transition adjustments for September 2016 enrollment period for new three- or five-year non-residential direct access participation beginning January 1, 2017.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve, along with ancillary tariff sheet modifications,[1] Portland General Electric Company's (PGE or Company) Schedule 129 addition of the enrollment period beginning September 1, 2016, and ending September 30, 2016 (Enrollment Period O), prior to a customer's January 1, 2017 conversion to direct access status subject to the following conditions:

1. PGE will submit a compliance filing on, or before, August 31, 2016, with rates calculated in accordance with the methodology included in PGE's Advice 16-10, and is consistent with Order No. 13-459, whose purpose is to provide final transition cost adjustment rates that are formally to be effective on September 1, 2016.[2]

2. For subsequent changes in direct access rates, PGE be directed to transmit to the parties to UE 262, no later than the first week in July of each year, indicative prices that will be available for the September direct access window.

[1] The ancillary Schedule 485, 489, and 490 tariff sheet additions merely list the new, September 2016 enrollment period for a cost-of-service opt-out.

[2] Staff notes that for future revisions of rates in Schedule 129, the Company should work with Staff and other interested parties to determine a procedure for filing final rates that allows time for review, and potentially a challenge, to final calculated rates.

Staff also recommends that the Commission permanently suspend the PGE filed indicative rates.

DISCUSSION:

Issue

Whether the Commission should approve Advice No. 16-10, effective September 1, 2016. The Company's filing introduces the Company's Enrollment Period O (September's month-long new enrollment period) prior to a January 1, 2017, multi-year conversion to direct access service for newly qualifying large, non-residential customers. Staff notes that the rates contained in the June 30, 2016, application are "indicative"—i.e., will be updated to incorporate the most current five-year market value and net-variable-power-cost projections. Accordingly, Staff does not recommend that the Commission approve the rates contained in Schedule 129. Rather, Staff recommends that the Commission direct PGE to file a compliance filing on August 31, 2016, with final transition charges calculated pursuant to the methodology contained in the Company's Advice 16-10. Staff's recommendation is consistent with the Company's proposal in Advice 16-10.

Applicable Law

The Commission may approve tariff changes if they are deemed to be fair, just and reasonable. *See* ORS 757.210. Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-022-0025. Filings that propose any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the change. *See* ORS 757.220; OAR 860-022-0020. OAR 860-022-0025(2) specifically requires that each energy utility changing existing tariffs or schedules to include in its filing a statement plainly indicating the increase, decrease, or other change made with the filing, the number of customers affected by the proposed change and the resulting change in annual revenue; and the reasons or grounds relied upon in support of the proposed change. OAR 860-022-0030(1) further requires that for tariff or schedule filings proposing increased rates, the utility must for each separate schedule, identify the total number of customers affected, the total annual revenue derived under the existing schedule, and the amount of estimated revenue which will be derived from applying the proposed schedule, the average monthly use and resulting bills under both the existing rates and the proposed rates that will fairly represent the application of the proposed tariff or schedules, and the reasons or grounds relied upon in support of the proposed increase.

ORS 757.600 to 757.689 are the statutes that authorize and regulate the provision of the "direct access" (Direct Access) option in Oregon. The Commission's administrative rules implementing these statutes are set forth in OAR Chapter 860, Division 038. OAR 860-038-0160 concerns Direct Access transition charges and credits.

Discussion and Analysis

Transition adjustment rates were instituted so that when electricity consumers substitute third-party energy sources for retail utility service, each such consumer will (rarely) receive a transition *credit* or pay a transition *charge* as set forth in detail in OAR 860-038-0160.[3] These rates are adjusted regularly to prevent net revenue shortfalls or windfalls arising from the Direct Access option.

On June 30, 2016, PGE filed Advice No. 16-10, requesting establishment of multi-year transition adjustment rates beginning on January 1, 2017, under Schedule 129, applicable to the September 2016 Enrollment Period O. Schedule 129 allows eligible customers[4] to substitute direct access service for their applicable cost-of-service service for either a three-year period or a five-year period. The rates filed are indicative and will be updated through a compliance filing.

The basic computational principle behind the transition adjustment is to equate it to the difference between the full cost-of-service, retail price that the direct access customer would have paid and the market-based, marginal cost/price that the utility avoids or captures when a customer has switched over to direct access. When a block of energy is no longer sold to a retail customer, a combination of the outcomes now to be described takes place depending on the mix of avoided high-cost market purchases or enabled profitable short-term market energy sales. In our numerical example let us assume a retail sales price of seven cents per kWh and a wholesale market price of four cents. Numerical outcome A: Given *high* own-generation costs, the utility would have chosen to purchase energy from the wholesale market in order to make the retail sale. So the loss to the utility from direct access in this regard is three cents—the difference between the lost retail price and the *avoided* cost of the market purchase necessitated by the retail sale. Numerical outcome B: Given *low* own-generation costs, the utility would be enabled to sell the freed-up power into the wholesale market at the same four cents per kWh. So again, the lost margin experienced by the utility per kWh would be three cents—the difference between the seven cent retail price and the four cents per

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[3] Simply stated, the purpose of a transition charge is to ensure that the utility and its ratepayers would not be burdened by the lack of recovery of fixed costs incurred to serve loads subsequently converted to Direct Access. The purpose of the transition credit is to ensure that the consumer shares in the cost burden of utility investments incurred prior to when the consumer purchases electricity through Direct Access.

[4] The customers would otherwise receive service under large industrial Schedules 85, 89, or 90.

kWh wholesale market price *captured* by the opportunity sale into that market. Again, the transition adjustment is set to the expected unit lost margin so that the utility, and its remaining customers, will not be expected to suffer from them.

While the computational principle behind the transition adjustment is the same for both the three-year and five-year direct access commitments, the specific computational formulae are slightly different, as is discussed below.

Both the five-year and the three-year options estimate a "raw" transition adjustment for each year of the option and then convert the multiple years' adjustments to a single, discounted (at 6.43 percent) net-present-value figure that goes into the tariff. For the three year option you start with what is projected to be the three-year average tariff energy price as adjusted minimally for Schedules 137, 145, 105,[5] and, more substantially, for Schedule125, the annual net-variable-power-cost adjustment. Then subtract from that sum each year's projected market value estimate[6] to come up with the raw transition adjustment for that year.

The main difference between the three-year and five-year option is that the latter starts with whatever is the fixed generation portion built into the energy charge for the given initial year, with adjustments being made in successive years according to the outcome of new general rate cases. In this case, the Part B fixed generation portion of the transition charge starts with the customer schedule's "Special Condition 3" rate from Schedule 129, and adds to it the Carty contribution from the UE 294 determination and also an amount reflecting production tax credits. Part A of the transition charge adds the adjustments from Schedules 137, 145, 105, and 125 described above to the UE 294 net-variable-power-cost price to yield the Part A variable cost-of-service (COS) price, and subtracts from that sum the same yearly weighted market value that was also described in the previous paragraph. Because the variable COS price is projected to be beneath the market value, the Part A transition adjustment is negative—i.e., a credit. But, as expected from the algebra of the component pieces of both the three-year and five-year transition adjustments, combining the negative Part A with the positive, larger Part B component of the five-year option yields net transition adjustments very close to those of the three-year option.[7]

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[5] Schedule 137 – Customer-Owned Solar Payment Option Cost Recovery Mechanism; 145 – Boardman Power Plant Decommissioning Adjustment; 105 – Regulatory Adjustments.

[6] Both the annual tariff energy price and the market value *as seen by a particular customer schedule* are weighted averages that take into consideration the distinction between the heavy- and light-load-hour prices and that customer schedule's loads in those two multi-hour periods.

[7] For Schedule 485-S, for example, the five-year transition adjustment for the first year is 3.104 cents per kWh while it is 3.046 cents for the three-year option.

Staff requested and received electronic versions, with formulae intact, of the Company's workpapers associated with PGE's tariff filing. Staff reviewed the workpapers to establish consistency among the model inputs, outputs, and the actual tariff entries. The methodology used by PGE is consistent with UE 262 order 13-459.

Two factors have led to increases in the transition cost adjustments. Fixed generation costs have been increased owing to the Carty plant addition; and market values continue to trend downward. (That means something smaller is subtracted from something that is larger—yielding a greater difference.) Considering Schedule 485-S for example, the three-year opt-out transition adjustment for the year 2017 for last year's enrollment group is 2.901 cents per kWh while this year's enrollment group's amount is 3.046 cents. The respective year 2017 five-year opt-out figures are 2.411 cents and 3.104 cents.

This tariff will impact only those direct access customers who newly choose to leave cost-of-service during the option window.[8] However, the number of such customers who will make this election is unknown and, under these circumstances, the Schedule 129 revenue change is similarly unknown. By "ensuring" fixed cost recovery from customers who convert to direct access, the rates for the rest of the customers should be unaffected by the magnitude of such conversions.

For the last several years, PGE has filed "indicative rates" and the Commission has approved the filing as such. This could lead to some confusion as the Commission could be considered to be adopting *those* rates per se, as distinct from what PGE immediately then submits in its follow-up compliance filing which contains its updated rates, effective September 1. In this memo, Staff is proposing a different initiating process. Instead of making an advice filing, PGE would send parties to UE 262, the indicative rates no later than the first week in July. This would allow parties to review the methodology and informally ask PGE questions regarding its calculations. Staff intends to work with PGE and other interested parties on developing a procedure for filing its updated/final transition adjustment rates in future years.

Conclusion
Having reviewed the PGE application as indicated above, Staff recommends that the Commission approve the addition of Enrollment Window O in Advice 16-10, and the methodology used to calculate the final transition charges for Schedule 129. Staff also

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[8] Prior enrollment period enrollees in the three-year options enjoy fixed transition cost adjustment rates for their three-year durations; 2014 and 2015 enrollment period enrollees in the five-year options saw transition cost adjustment increases on August 1, 2016, as part of the Carty docket (UE 294) implementation. Enrollees in the five-year options prior to the year 2014 have fixed transition cost adjustment rates.

recommends that the Commission permanently suspend the rates set forth in Schedule 129, as they are indicative and do not represent final pricing from the Company. Staff further recommends that the Commission direct PGE to submit a compliance filing no later than August 31, 2016, for Schedule 129 that reflects updated power costs using the approved methodology.

PROPOSED COMMISSION MOTION:

Approve, subject to Staff's recommended conditions above, the addition to Schedule 129 and ancillary tariffs of Enrollment Window O and the methodology contained in PGE's Advice 16-10 for calculating PGE's multi-year transition adjustment rates for the September 2016 enrollment period; and permanently suspend the rates as filed.