

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 26, 2013

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2013

DATE: January 29, 2013

TO: Public Utility Commission

FROM: Judy Johnson

MG for J.J.
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MG

THROUGH: Jason Eisdorfer, Maury Galbraith and Marc Hellman

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1514(2)) Requests reauthorization to defer the incremental costs associated with Automated Demand Response.

STAFF RECOMMENDATION:

I recommend that Portland General Electric's application be approved.

DISCUSSION:

Portland General Electric (PGE or Company) makes this filing pursuant to ORS 757.259 and OAR 860-027-0300, to request reauthorization to defer the incremental costs associated with its Automated Demand Response Program (ADR Program) for the 12-month period beginning January 1, 2013.

The deferral of incremental ADR Program costs, as an automatic adjustment clause, and the associated cost recovery tariff (Advice 10-29, Schedule 135) were initially authorized by Commission Order No. 11-182, as part of a two-year pilot program.

Background

PGE filed an application for deferral of incremental costs associated with the ADR Program on December 29, 2010, seeking deferral from January 1, 2011 through December 31, 2011. This deferral and cost recovery tariff (Advice 10-29, Schedule 135) was approved in a Commission Order No. 11-182 on June 1, 2011. Subsequently, the Company filed for reauthorization for the deferral on December 23, 2011, for the period January 1, 2012 through December 13, 2012.

PGE seeks reauthorization for a deferral of incremental costs associated with the ADR Program and the new pilot timeline for the period January 1, 2013 through December 31, 2013.

First ADR Pilot Period

PGE selected a third-party provider based on a combination of good credit, bidding summer and winter events, better technology, and a stronger marketing plan. The provider began its program marketing on September 1, 2011, but failed to meet the initial capacity milestone of 5 MW for the first winter season. The provider then began to experience financial difficulties and failed to meet additional terms of its agreement for the ADR pilot. On April 30, 2012, PGE terminated its contract with the provider.

New Proposed ADR Pilot Period

Although the first program was terminated, PGE believes that ADR pilot can still be a valuable and viable resource. Consequently, PGE is in the process of selecting a new provider and implementing a new pilot. PGE proposes that the new ADR pilot period run through June 2015. This will allow four operating seasons (two full years) to be evaluated for performance and cost effectiveness with the evaluation to be completed by April 2015. If the evaluation is favorable, the second period will run through 2016, which will allow a second evaluation to review the entire pilot with the evaluation to be completed by April 2016. If the second evaluation is favorable, PGE will submit the ADR Program as an on-going capacity resource in its Annual Power Cost Update (Schedule 125) and Power Cost Adjustment Mechanism (Schedule 126) similar to other power cost and capacity items.

Description of Amounts

Pursuant to ORS 757.259(2)(e), PGE seeks renewal of deferred accounting treatment for the incremental costs associated with an ADR pilot. The approval of the Application will also enable the continued use of an automatic adjustment clause rate schedule which will provide for recovery of the incremental costs associated with the ADR pilot through tariff Schedule 135.

Reasons for Deferral

Pursuant to ORS 757.259(2)(e), PGE seeks to continue a deferred accounting treatment for the incremental costs associated with the ADR Program and its new pilot (initially authorized by the Commission through Order No. 11-182 on June 1, 2011). The granting of this reauthorization application will minimize the frequency of rate changes and match appropriately the costs borne by, and benefits received by, customers.

Without reauthorization, the current authorization to defer costs will expire on

December 31, 2012. In addition, the currently proposed ADR pilot has an aggressive timeline. PGE is filing this reauthorization application for the period commencing January 1, 2013 through December 31, 2013.

Proposed Accounting

PGE proposes to record the deferred costs in FERC account 182.3 (Regulatory Assets), with the offsetting credit recorded to FERC account 131 (Cash).

Estimate of Amounts

PGE does not have a current estimate of the cost to implement the ADR pilot because PGE is currently in the process of reviewing bids to PGE's request for proposals. In January 2013, the Company plans to have selected a vendor and will update this filing with relevant cost estimates and cost effectiveness calculations.

The Company did not incur significant costs with the first pilot and chose to write them off.

Information Related to Future Amortization

- Earnings review – An earnings review does not apply to an automatic adjustment clause, pursuant to ORS 757.259(5).
- Prudence Review – A prudence review should include a verification that deferred amounts are incremental, and verification of the accounting methodology used to determine the final amortization balance.
- Sharing – It does not appear that a level of sharing of any deferred amount was specified by Commission order. Staff assumes the Company will be allowed to recover all prudently incurred incremental costs.
- Rate Spread/Design – Per Commission Order No. 11-517, tariff Schedule 135 will allocate the costs of the ADR pilot on the basis of an equal percent of forecast generation revenues.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year. Because PGE is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit.

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Staff Analysis

The rationale for this deferral is still valid, and the Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300. For these reasons, Staff recommends PGE's application be approved.

PROPOSED COMMISSION MOTION:

PGE's application be approved for accounting purposes only, with ratemaking treatment to be considered in a subsequent proceeding.

PGE 1514(2) ADR Program deferral