ITEM NO. CA13

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 21, 2017

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** April 1, 2017

DATE: March13, 2017

TO: Public Utility Commission

FROM: Max St. Brown MSB

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UE 231/Advice No. 2017-S1) Requests approval of steam sale agreement between PGE and Columbia River Processing, 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 Columbia River Processing (CRP) to go into effect for service rendered effective on and after April 1, 2017.

DISCUSSION:

Issue

Whether the Commission should allow PGE's proposed steam sales agreement with CRP 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. CRP is located in the Port of Morrow, outside of PGE's electricity service territory, thus PGE's steam sales contract with CRP 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 February 9, 2017, PGE filed an Application with the Commission for approval of its proposed steam sale agreement with CRP. The Company's prior agreement was for a five-year term ending December 31, 2016, but Order No. 16-473 extended that agreement until March 31, 2017. Accordingly, the proposed agreement's requested effective date is April 1, 2017. Staff issued six requests for information.

The proposed agreement makes several changes versus the prior agreement, with the biggest impact to ratepayers likely to be that PGE now charges a capacity charge for base steam capacity that is reserved by CRP. On April 18, 2016, PGE met with Staff in Salem to discuss this capacity charge.

The capacity charge allocates up to 100 percent of fixed costs by assigning a charge to each customer based on their share of total reserved capacity. If in aggregate all steam customers reserve at least 45 percent of Coyote Springs 1's steam generating capacity, then 100 percent of fixed costs invested for the benefit of steam customers will be covered by the capacity charge. Staff views this as an improvement over the prior agreement, because it alleviates the steam customers' incentive to reserve more capacity than they need and thus frees capacity for additional steam customers to be served by PGE. Additional steam sales might benefit electric ratepayers by reducing the chance that too few steam sales occur to cover fixed costs. During an April 18, 2016, meeting with Staff, PGE representatives described that if less than 45 percent of capacity is reserved, the steam sales agreements are designed to prevent all of the fixed costs from being assigned to a limited number of steam customers. Without such protection, these customers might purchase their own steam boiler and cease purchasing steam from PGE, thereby leaving electric ratepayers worse off.

Accompanying the capacity charge, the agreement adds a peak steam charge or an excess steam charge for when CRP uses more steam than its reserved capacity. Up to its reserved capacity, CRP pays the base steam price designed to recover PGE's variable steam production costs and the opportunity cost of lost electricity sales. The peak steam charge is the base steam price plus the capacity charge. Steam customers are encouraged to make accurate capacity reservations because PGE proposes to charge an excess steam price that is 20 percent higher than the peak steam price for steam usage greater than 110 percent of reserved capacity or greater than 5 klbs per hour if 10 percent of reserved capacity is less than 5 klbs.

The proposed steam sale agreement makes the following four additional changes versus the current agreement:

- Extend 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.
- Neither Party is responsible for consequential damages. Previously only PGE was exempted.

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.

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. If PGE receives less than 45 percent capacity subscription, it could collect less than 100 percent of fixed charges. Nonetheless, Staff is not concerned by this cap on the capacity charge because without the cap, if customers depart, then a limited number of remaining customers might have to pay all of the fixed costs. This could have the unintended consequence of incenting the remaining customers to also depart thereby further reducing revenues.

2. The terms in this advice filing and in Advice No. 2017-S2 and Advice No. 2017-S3 do not differ in a discriminatory way. Additionally the Company has made a filing with similar terms and a requested effective date of June 1, 2017 for its steam customer JSH Farms, Inc.
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). As described in Item 1. above, some specific scenarios might not recover all fixed costs, but Staff believes the agreement's pricing structure is appropriate in order to avoid unintended consequences.
   Further, PGE utilizes "the production cost method (versus the opportunity cost method) for determining the cost of steam produced from the auxiliary boiler."[1] This ensures electric ratepayers are held harmless from the variable operating costs of the steam boiler because its full variable operating costs are collected.
4. PGE's base, peak, and excess peak steam prices all incorporate opportunity-cost pricing.

Staff notes that steam sales were reduced after one customer purchased its own boiler. Thus, Staff recommends that PGE monitor whether pricing changes are necessary in future steam sales agreements to prevent stranded costs of PGE's investment in its auxiliary boiler.

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

<u>Conclusion</u>

Staff conducted an analysis of PGE's steam sales contract, using ORS 757.007's 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-S1 to go into effect for service rendered effective on and after April 1, 2017.

UE 231_3-21-17

[1] See PGE's response to Staff IR 4.