ITEM NO. CA15

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 243/Advice No. 2017-S3) Requests approval of steam sale agreement between PGE and Lamb Weston, 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 Lamb Weston 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 Lamb Weston 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. Lamb Weston is located in the Port of Morrow, outside of PGE's electricity service territory, thus PGE's steam sales contract with Lamb Weston 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).

<u>Analysis</u>

On February 21, 2017, PGE filed an Application with the Commission for approval of its proposed steam sales agreement with Lamb Weston. The Company's prior agreement was for a five-year term ending December 31, 2016, but Order No. 16-474 extended that agreement until March 31, 2017. Accordingly, the proposed agreement's requested effective date is April 1, 2017. PGE made this filing at a similar date to two other steam agreement filings: Advice No. 2017-S1 (UE 231) and Advice No. 2017-S2 (UE 238).

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.

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.[1]
2. The terms in this advice filing and Advice No. 2017-S1 and Advice No. 2017-S2 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). The steam rates collect the full variable operating costs of the auxiliary boiler.[2]
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-S3 to go into effect for service rendered effective on and after April 1, 2017.

UE 243_3-21-17

[1] See Staff's public meeting memorandum, also on the agenda for the March 21, 2017, public meeting addressing Advice No. 2017-S1 at 2-3 for a discussion of the benefits of the new capacity charge.
[2] See Staff's public meeting memorandum, also on the agenda for the March 21, 2017, public meeting addressing Advice No. 2017-S1 at 3-4 for a discussion of why Staff supports the cap on the capacity charge. This cap could result in less than 100 percent of fixed costs being recovered.