ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 15, 2015

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** ____ **January 1, 2016**

DATE: December 8, 2015

TO: Public Utility Commission

FROM: George R. Compton GRC

THROUGH: Jason Eisdorfer, Marc Hellman, and Aster Adams

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. ADV 137/Advice No. 15-28) Uses power cost updates from PGE General Rate Case Docket No. UE 294 to, in turn, update Schedule 77, Firm Load Reduction Program, and Schedule 128, Short Term Transition Adjustment.

STAFF RECOMMENDATION:

Staff recommends that the Commission allow the Portland General Electric (PGE or Company) to update Schedule 77, Firm Load Reduction Program, and Schedule 128, Short Term Transition Adjustment, to be effective January 1, 2016.

ISSUE:

Whether or not the Commission should approve Advice No. 15-28 and allow updated Schedules 77 and 128 to take effect January 1, 2016.

RULES:

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. OAR 860-022-0025(2) specifically requires that each energy utility changing existing tariffs or schedules must 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.

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 860-022-0030(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.

ANALYSIS:

On November 16, 2015, PGE filed Advice No. 15-28, requesting an effective date of January 1, 2016, for updates to Schedule 77, Firm Load Reduction Program, and Schedule 128, Short Term Transition Adjustment.[1] Schedule 77 and Schedule 128 either compensate customers (Schedule 77) based upon projected energy costs or charge customers (Schedule 128) also on the basis of energy cost projections. Hence the tying together into a single advice filing the updates of these two schedules based upon the recently updated projected energy costs in PGE's General Rate Case, Docket No. UE 294. See Commission Order No. 15-356.

The primary purpose of Schedule 77 is to compensate industrial customers who are willing to reduce their loads during limited peak periods. The compensation is in the form of a capacity payment and an energy payment. The purpose of this advice filing is to update the energy portion, providing an annual update of fuel cost figures. The compensation rate for a given load reduction multi-hour interval is the lesser of: a) the contemporaneous hourly Mid-Columbia (Mid-C) Electricity Index amount; and b) the projected average per MWh Simple Cycle Combustion Turbine (SCCT) fuel cost applicable to the month in which that interval appears.

Currently, PGE Tariff P.U.C. Oregon No. E-18, Schedule 77, shows the average fuel costs as ranging from $29.94 per MWh in July of 2015 to $37.52 in January of 2015. Based upon the reduction in national and regional natural gas prices since last year, the proposed Schedule 77 update will lower the range to between $18.25 per MWh in July

[1] The caption in the Company's Advice filing refers to "Schedule 77 Firm Load Reduction Pilot Program." The firm load reduction program, Schedule 77, is no longer a *pilot* but a duly established program. The revised tariff sheet for Schedule 77 does not refer to a pilot program. Staff assumes the Company's filing concerns the established firm load reduction program. Accordingly, Staff has captioned this filing so as to refer to the "Schedule 77 Firm Load Reduction Program."

2016 to $24.44 in December of 2016. The underlying natural gas prices employed in estimating the gas turbine fuel costs are from PGE's final 2015 Annual Update Tariff (AUT); the SCCT heat rate employed to transform gas prices to per-MWh fuel costs is what was reported in PGE's 2013 IRP.

The purpose of the "Short Term Transition Adjustment Rates" that constitute Schedule 128 is to recover fixed generation costs from customers who elect to not pay cost-of-service energy rates—in this case on less than a long-term or permanent basis. (Schedule 129 applies to the long-term cases.) Schedule 128 applies to either short-term direct access customers or to customers who buy their electricity from the Company under a daily price option, where the prices are Mid-C index based.

As stated in the Schedule 128 tariff (Sheet No. 128-1), "The Short-Term Transition Adjustment will reflect the difference between the Energy Charge(s) under the Cost of Service Option[,] including Schedule 125[,] and the market price of power for the period of the adjustment applied to the load shape of the applicable schedule." The following paragraph describes the details of how this transition adjustment is formulated and calculated. As part of Staff's review of this filing, the formulas were all cross-checked using the electronic version of the worksheets supplied by PGE.

The Cost of Service Energy Charges used in making the transition adjustment calculation are what appear in the tariff that comes out of PGE General Rate Case UE 294. "Load shapes" refer to the on-peak and off-peak monthly energy consumptions for each schedule. Market prices for those monthly loads are the Monet Net Variable Power Cost figures stipulated to in Docket No. UE 294 and adjusted for wheeling costs and transmission line losses. The monthly differences between the load-weighted energy charges and market prices are then added together to determine the annual on-peak and off-peak sub-totals. The sub-totals are then combined and divided by the annual kWh volumes to yield the preliminary transition adjustment for the schedule. The preliminary transition adjustment is finally expanded by the franchise fee factor to produce the annual transition adjustment that appears in Schedule 128. Note that while the load shapes and market prices are estimated on a monthly basis, the single Schedule 128 transition adjustment figure for each customer schedule applies to all of the non-cost-of-service loads for that schedule throughout the year. The franchise fee adjustment captures the franchise fee burden associated with the fixed cost recovery portion of the standard energy charge that is recovered through Schedule 128. To avoid inappropriate franchise-fees-related charges associated with the customers' non-cost-of-service energy purchases, the affected schedules' distribution charges or system usage charges are reduced appropriately. (For conventional, cost-of-service customers, energy-revenue-related franchise fees are recovered either in the distribution charges of the system usage charges.)

The short-term transition adjustment rates contained in the current tariff (Sheets No. 128-1 and 128-2) range from 1.910 cents to 3.775 cents per kWh, with most rates being less than 2.5 cents per kWh. The range under the revised tariff would be from 2.594 cents to 4.413 cents per kWh, with most rates now being less than 3 cents per kWh. Recall that the transition adjustment is the difference between the cost-of-service energy charge and market prices. The fact that fuel-price-driven market electricity prices have fallen more than the full electricity cost-of-service, which includes fixed costs, is what has caused the increase in the transition rates. The revised rates will apply to customers who have elected to leave cost of service or choose direct access as of January 1, 2016.

As regards the referenced rule requirement to 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 so forth, the Company's statement was as follows: "It is unknown how many customers will make this election and the revenue change is therefore unknown. [Revenues from] Schedules 77 and 128 cannot be estimated because both are optional schedules." Be that as it may, the subject programs are designed to be net-revenue neutral so as not to burden remaining customers—which is to say that other customers are not expected to be impacted no matter how many customers choose the optional schedules. The rule requirement to supply 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 was accomplished in this filing.

CONCLUSION:

Staff has reviewed this filing and finds that the revised schedules have been correctly calculated, and contain appropriate updates. PGE's filing meets the requirements set forth in statute and rule for tariff schedule changes.

PROPOSED COMMISSION MOTION:

The filed updates to Schedule 77, Firm Load Reduction Program, and Schedule 128, Short Term Transition Adjustment, be approved, effective January 1, 2016.