ORDER NO. 01-337

ENTERED APR 26 2001

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1020

In The Matter of the Portfolio Advisory Committee's Recommendation for Portfolio Options pursuant to ORS 757.603(2) and OAR 860-038-0220.	))))	ORDER

DISPOSITION: PORTFOLIO OPTIONS ADOPTED

On November 21, 2000, the Commission appointed members to a Portfolio Advisory Committee (Committee) to develop portfolio options in accordance with ORS 757.603(2) and OAR 860-038-0220. Since that time, the Committee met on numerous occasions and established three subcommittees that held additional meetings to address market-based rate proposals, branding, and bid processes.

On March 13, 2001, the Committee submitted to the Commission its recommendation for Portfolio Options. The Committee's report is attached as Appendix A and incorporated by reference.

At its public meeting on March 20, 2001, the Commission adopted the Committee's recommendations with the following amendments and clarifications.

DISCUSSION

By October 1, 2001, an electric company must provide each residential customer with a portfolio of product and pricing options. The portfolio must include at least one product that reflects significant new renewable energy resources and one market based rate. *See* ORS 757.603(2).

In OAR 860-038-0220, the Commission established an Advisory Committee to develop and recommend portfolio options. The Commission directed the Committee to make its recommendations at least six months prior to the date of implementation of the portfolio product, but clarified that it was not necessarily bound by those recommendations.

On March 13, 2001, the Committee submitted its recommendations to the Commission. The Committee made 13 recommendations, and asked the Commission to adopt Recommendations 1 through 9 and 11 through 13 at the March 20, 2001 Public Meeting. The Committee also requested that its Recommendation 10 be reviewed and approved through the rate case proceedings pending before the Commission in dockets UE 115 and UE 116. In addition, the Committee explained that its Recommendation 11, which related to marketing, contained two alternatives for the Commission's consideration.

At the March 20, 2001 Public Meeting, the Commission adopted the Committee's Recommendations 1 through 8, 12, and 13 as submitted. The Commission made the following decisions with regard to Recommendations 9 and 11:

Recommendation 9

Recommendation 9 relates to Portfolio Design. The Committee proposed that utility companies develop labels for portfolio options and place the winning bidder's company name, but not its product brand name, on all utility marketing materials.

After much discussion, the Commission declined to adopt the Committee's recommendation and chose, instead, an alternative proposal identified by the Committee as Proposal B with specific clarifications. This alternative gives the utility the discretion to include the suppliers' product brand name on the utility enrollment and marketing materials. The Commission favors this flexibility, but clarified that the brand name should not be substituted for the label for each portfolio option. Furthermore, the label should be as descriptive as possible, and consistent between utility territories.

Recommendation 11

The Committee presented two alternatives for Recommendation 11, which relates to Marketing. Recommendation 11A provides a performance incentive to utility companies when customers select a renewable resource product. Recommendation 11B would, instead, allow utility companies to spend additional dollars to market their own renewable resource block product at Commission approved rates.

A majority of the Commission adopted Recommendation 11B, but noted that the Commission will continue to explore other incentive possibilities and, if necessary, consider other proposals in the future.

ORDER

IT IS ORDERED that the Recommendations for Portfolio Options pursuant to OAR 757.603(2) and OAR 860-038-0220, submitted by the Portfolio Advisory Committee, are adopted as amended and clarified by this order.

Made, entered and effective ___________________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 20, 2001

REGULAR AGENDA X   CONSENT AGENDA___   EFFECTIVE DATE ______

DATE: March 13, 2001

TO: Phil Nyegaard through Lee Sparling and Jack Breen

FROM: Rebecca Hathhorn on behalf of the Portfolio Advisory Committee

SUBJECT: Recommendation for Portfolio Options pursuant to ORS 757.603(2) and OAR 860-038-0220

SUMMARY RECOMMENDATION:

The Portfolio Advisory Committee recommends the following:

1. Use Renew 2000 levels as the standard for renewable energy options containing "significant new" resources.
2. Use the Renew 2000 definition for blended renewable resource options.
3. A market-based rate option designed as a fixed time of use rate (See Attachment A).
4. A total of four options will be included in the portfolio: a time of use rate, a renewable block rate, a renewable blended product, and an environmental mitigation option.
5. Enrollment should be continuous.
6. Customers may exit options at anytime except for the market-based option. The minimum term for the market-based option is 12 months.
7. Delivery date of new renewable resources should be within two years of the effective date of customer sign-up.
8. Environmental Mitigation Option:
    a. The environmental mitigation option must be directed to promote restoration of native species adversely affected by the production and transmission of electricity.
    b. The renewable resource portion of the environmental mitigation product must provide power from renewable resources as defined by SB 1149, except through December 2002 any hydroelectricity must have been certified by the Low-Impact Hydro Institute (to date, no project has been certified by the Institute).
    c. Environmental mitigation options through December 2002 should be directed toward threatened or endangered anadromous fish.
    d. For PGE customers through December 2002, allow For the Sake of the Salmon to provide the environmental mitigation option without going out for a bid. For this option only, allow For the Sake of the Salmon to use its product name in the utility's marketing materials in the following manner: Salmon Friendly Power, brought to you by For the Sake of the Salmon.

e. PacifiCorp has the option to choose For the Sake of the Salmon as the supplier through December 2002, in the same manner as (d) above.

9. The following components for the portfolio design (see Attachment B):
   a. The utility companies will develop labels for each portfolio option. The label belongs to the slot and does not change with a change in supplier.
   b. One option may be labeled Clean Wind or Blue Sky. The utility companies will not be required to establish a bid process, or other Commission-approved means, for this option until Fall 2002 for the option beginning January 2003.
   c. The winning provider for any portfolio option will have its company name on utility enrollment and marketing materials for that portfolio option. However, product brand names are prohibited.
   d. The utility companies are responsible for an education and awareness campaign for all options. In addition, utility companies can provide marketing of all portfolio options. Such marketing may include, for example, promoting renewable resource options at events and in advertisements. These marketing costs are spread to all customers eligible to choose the portfolio options.
   e. Utility marketing will be equal across all renewable resource/environmental mitigation options.
10. Enrollment and switching fees are a disincentive for customers to sign up for portfolio options. Costs should be spread among all customers eligible to choose portfolio options.
11. There are two recommendations for the Commission's consideration:
   a. Utility companies should get a small performance incentive for customer sign-ups and the amount of renewable resources/ environmental mitigation that customers commit to. The cost will be embedded in the price of the renewable resource/environmental mitigation products (*not* spread to all customers). **OR**
   b. Utility companies may spend additional dollars to market their own renewable resource block product (e.g., Blue Sky/Clean Wind) at PUC-approved rates. These marketing costs will be embedded in the price of the utility company's block product. The additional dollars will put marketing of Blue Sky/Clean Wind on par with competing renewable resource/environmental mitigation products. The suppliers of the competing products embed their marketing costs in the price of their products. Utility companies would be at risk for recovering marketing costs, i.e., if the premium in the block product price doesn't cover or exceed actual marketing costs, utility shareholders would absorb the difference.
12. Enrollment materials should include the winning supplier's website, as well as phone numbers and website addresses for the respective utility company and the PUC.
13. Small nonresidential customers should have the same portfolio options as residential customers. This determination is predicated on the current cut-off of 30 kW for a small nonresidential customer. If the definition should change, the Committee reserves the right to re-evaluate this recommendation.

Staff recommends the Commission adopt recommendations 1 through 9 and 11 through 13. Staff's counsel, Paul Graham, has advised Staff that recommendation number 10 cannot be approved in this forum. Recommendation number 10 should be reviewed and approved through the rate case proceedings currently pending before the Commission (UE 115 and UE 116).

DISCUSSION:

On November 21, 2000, the Commission approved members of the Portfolio Advisory Committee (see Attachment D) to develop portfolio options in accordance with ORS 757.610 and OAR 860-038-0220.

The Portfolio Advisory Committee met nine times since November 2000. In addition, the Committee established three subcommittees that conducted meetings: market-based rate, branding, and bid process.

PROPOSED PORTFOLIO OPTIONS

Considerations for Designing Portfolio Options

Adopted unanimously: The Committee adopted sixteen considerations for designing portfolio options. See Attachment C.

Definition of Significant

Adopted unanimously: The Committee adopted Renew 2000 levels for a renewable energy product containing "significant new" resources. That is, a block product must contain 100 percent new renewable resources, and a blended product must contain at least 15 percent new renewable resources.

Adopted unanimously: The Committee also adopted the Renew 2000 definition for blended renewable resource products:

- Blended renewable resource products must contain a minimum of 50 percent renewable resources.
- The minimum required use of new renewable resources is 15 percent of the total content. The new renewable energy requirement may be counted toward the overall 50 percent renewable energy requirement.
- The remaining 50 percent must have air emissions and spent fuel rates that do not exceed the kilowatt averages for the electricity generating system as defined by state requirements or regional practice, except that the average kilowatt rate for carbon dioxide must meet the Oregon siting standard[1].
- The blended renewable resource product provides 100 percent of the customer's load.

Market-Based Rate Option

Adopted 9-to-1: After consideration of five types of market-based rate designs (see Attachment A for alternative designs), the Market Rate Option Subcommittee developed a Fixed Time-of-Use option, which the Committee adopted as the basis for the market-

[1] OAR 345-024-0550 currently states the net CO_2 emissions rate does not exceed 0.675 pounds of CO_2 per kWh of net electric output.

based rate option. The actual utility filings may differ slightly but will meet the basic design proposed as follows:

Prices are fixed for the year for periods pre-defined as on-peak, mid-peak, and off-peak. For example:

On-Peak (17% of hours):
Weekdays, 6 a.m. to 9 a.m.
Dec., Jan., and Feb., also Monday through Saturday, 5 p.m. to 9 p.m.
June through Sept., also weekdays, 4 p.m. to 9 p.m.

Off-Peak (46% of hours):
Weekdays, 10 p.m. to 6 a.m.
Saturday, beginning at 9 p.m.
All day Sunday and six federal holidays

Mid-Peak (38% of hours)
All other times

Example prices:
On-Peak: 10 cents/kWh
Mid-Peak: 5.6 cents/kWh
Off-Peak: 3.7 cents/kWh

The Committee recommends that customers get a guarantee at least the first year of enrollment, in order to aid customer acceptance. If the bill incurred in the first year of service on the market rate is at least $xx more than it would have been for the same period on the cost of service rate, the difference less $yy would be refunded to the customer. (Note: $yy to be determined at a future date but is probably between $10 and $20 per year, roughly equal to the cost of metering spread over several years. Another option is refunding a certain percentage of the bill above the cost of the prior year, less that year's metering charge. It may be appropriate to continue the guarantee beyond the first year.)

Recognizing that recovery of meter costs is a threshold issue in designing a market-based rate option, the Committee recommends that meter costs paid by customers choosing the option not be priced to be a significant barrier to participation. Therefore, the Committee recommends that meter costs of no more than $12 to $20 per year be charged to each participant. The Committee suggests that the Commission consider the costs of the meters and how the costs will be spread among customers. A possible solution is to put a cap on the number of participants.

The Committee further recommends that the utilities submit a plan to the Public Utility Commission by June 1, 2001, for a small load control pilot in conjunction with the market-based rate option. The purpose of these pilots would be to test, at a minimum, utility control of space and water heat and determine the cost effectiveness of expanding these load control systems.

The Portfolio Advisory Committee recommends the Public Utility Commission approve a similar market-based rate option for small non-residential customers, but that the Commission:

1) review whether it would make it harder for energy service suppliers to compete with utility companies, and
2) review how the cost of meters will be spread to customers.

Richard Pine representing AOI opposed the market-based rate proposal because he believes the costs and benefits of any portfolio option should accrue only to the customers that select that option. The committee's recommendation that part of the meter costs may be borne by all customers eligible for the portfolio conflicts with that. Rebecca Hathhorn representing PUC Staff and Greg Applen representing OPUA were absent for the vote. PUC staff supports the proposal.

<u>Renewable Resource Options</u>

Adopted unanimously: The committee recommends that the portfolio include a blended renewable resource product, based on standards the committee adopted (see discussion above for Definition of Significant).

As part of the portfolio design proposal the Committee adopted (Attachment B), it also recommends that the portfolio include a renewable resource block product.

<u>Environmental Mitigation Option</u>

Adopted unanimously: The committee recommends that any environmental mitigation options must be directed to promote restoration of native species adversely affected by the production and transmission of electricity.

Adopted 6-to-4: The Committee considered criteria for the renewable resource portion of the environmental mitigation product. The Committee recommends the following criteria:

The option must provide power from renewable resources as defined by SB 1149, except through December 2002 any hydroelectricity must have been certified by the Low-Impact Hydro Institute (to date, no project has been certified by the Institute).

The dissenting votes were as follows: Dennis Martin representing AARP, Thor Hinckley representing PGE, Ken Quaranta representing PacifiCorp, and Rebecca Hathhorn representing PUC Staff. Dave Tooze representing the City of Portland abstained. Greg Applen representing OPUA was not present for the vote.

Dissenting voters had issues related to depending on an outside entity for determining what would be considered low-impact hydro.

Those voting in favor believe that the state does not have the capability to undertake this task. The Low-Impact Hydro Institute has a rigorous process for evaluating projects based on clear criteria. The state could review the projects that have been certified by the Institute by December 2002 to see if its approved list should continue to be used as a standard for this portfolio option.

Adopted unanimously: The Committee unanimously supports that environmental mitigation options through December 2002 be directed toward fish.

Adopted 10-to-1: The Committee considered criteria for affected fish:

Through December 2002, the Portfolio Advisory Committee recommends that energy related environmental mitigation options be directed toward threatened or endangered anadromous fish.

Dennis Martin representing AARP voted against the measure because he objected to the "threatened and endangered" language. He believes that environmental mitigation should be allowed for anadromous fish that aren't threatened or endangered.

Options for Small Nonresidential Customers

Adopted unanimously: Small nonresidential customers (30 kW and less) will be offered the same portfolio options as residential customers.

OTHER ISSUES

Branding

The recommended Portfolio Design Proposal is detailed in Attachment B. The Committee considered three proposals. Proposal A has five components; Proposals B and C change only one of Proposal A's components. The five components are as follows:

1. The utility companies will develop labels for each portfolio option. The label belongs to the slot and does not change with a change in supplier.
2. One option may be labeled Clean Wind or Blue Sky. These are current utility offerings (Clean Wind for PGE, Blue Sky for PacifiCorp). Refer to Attachment E for more detail. The utility companies may request bids on this option but are not required to until Fall 2002. For any offering of this option beginning January 2003, there must be a bid process or other Commission approved means for acquiring the resource.
3. The winning provider for any portfolio option will have its company name on utility enrollment and marketing materials for that portfolio option. However, product brand names are prohibited.
4. The utility companies are responsible for an education and awareness campaign for all options. In addition, utility companies will provide marketing of all portfolio options. Such marketing may include, for example, promoting renewable resource options at events and in advertisements. These marketing costs are spread to all customers eligible to choose the portfolio options.
5. Utility marketing will be equal across all renewable resource/environmental mitigation options.

Proposals B and C differ with component number 3 above. Proposal B allows the utility the discretion to include the supplier's product brand name on enrollment and marketing materials. Proposal C is the same as B but allows the supplier the discretion to have its product brand name on these materials. Proponents of Proposals B and C pointed out in discussions that the labels would be generic — e.g., “wind block product” or “blended renewable resource product.” Under Proposal A, the labels would be more marketable (e.g., “Oregon Green”), because they are the only product name allowed.

Proposal A was adopted with 6 votes. The five dissenting votes were as follows: Dave Tooze representing the City of Portland, Ken Quaranta representing PacifiCorp, Brian Soth representing PGE, Peter West representing RNP, and Richard Pine representing AOI. They believe that the utility company should have the discretion to include the supplier’s product brand name on utility enrollment and marketing materials. It also should be noted that no one voted for Proposal C and additionally, Brian Soth of PGE and Peter West of RNP find Proposal A acceptable. Greg Applen representing OPUA was not present for the vote.

Those voting in favor of Proposal A believe that any product names should be longstanding and not change with a change in supplier. Reasons include maintaining momentum, minimizing customer confusion and reducing the incumbent supplier's advantage as products are bid out in future years.

Those voting in favor of Proposal B believe that more suppliers will bid to provide the portfolio products if they can use their product brand names. Further, the proponents believe that using the product brand names of the suppliers may make marketing of their products less costly and less difficult. That could reduce the product price and increase customer sign-ups.

Salmon Friendly Power

The Committee discussed the disposition of PGE’s Salmon Friendly Power option and whether PacifiCorp should be able to choose For the Sake of the Salmon as the environmental mitigation supplier for the first year without going out to bid. The Committee recommends the following:

Adopted 9-to-2:
1. Use a generic label like “Habitat Friendly.”
2. For PGE customers through December 2002, allow For the Sake of the Salmon to have the slot without going out to bid. For the Sake of the Salmon may have its product name in the utility’s marketing materials in the following manner: “Salmon Friendly Power, brought to you by For the Sake of the Salmon.”
3. The utility company will bid out the resource content. The product will meet the energy related environmental mitigation option standards adopted by the Portfolio Advisory Committee.

Adopted 8-to-2: PacifiCorp has the option to choose For the Sake of the Salmon as the supplier through December 2002, in the same manner as items 1 through 3, above.

The dissenting votes were Richard Pine representing AOI and Rebecca Hathhorn representing PUC Staff. They believe that not bidding out the environmental mitigation portion of the product shows favoritism toward the incumbent organization. PUC Staff further believes that adding the Salmon Friendly Power product name goes against the portfolio design the Committee adopted. Note: Jason Eisdorfer representing CUB abstained from the vote related to PacifiCorp.

Those voting in favor believe that For the Sake of the Salmon effectively represents fish interests in the state and that the organization's work effectively supports the Governor's Salmon Recovery Plan. Further, the proponents believe it would be logistically difficult for another entity to effectively bid on this portfolio option this year. It took For the Sake of the Salmon several years to develop a program that links fish-friendly power sources with restoration of fish habitat.

Enrollment/Exiting Portfolio Options

Adopted unanimously: Customers may sign up anytime for any portfolio option. Options will be effective after the next meter reading, subject to any requirements for metering.

Adopted unanimously: Customers may exit portfolio options at anytime, except for market-based options. The effective date will be the next regularly scheduled meter reading following the processing of the request.

Enrollment and Switching Fees

Adopted 8-to-2: The Committee believes it’s a disincentive to charge customers enrollment or switching fees for portfolio options.

The Committee discussed enrollment and switching fees in more detail. Three options were discussed:

Option A: Enrollment and switching costs should be borne by all customers eligible for portfolio options.

Option B: Enrollment and switching costs should be borne by those who choose portfolio options.

Option C: Enrollment and switching costs should be borne by the customer choosing the option. (Same as Option B, but the cost is not embedded in the product price.)

Option A was adopted with 7 votes. The Committee noted that current renewable resource and environmental mitigation options don’t require enrollment or switching fees. Many members believe enrollment fees do not make sense for options that cost more than cost of service and provide environmental benefits for all customers. Moreover, spreading the administrative costs of enrollment to all customers eligible to choose portfolio options likely would cost each customer only a few cents a year.

Limiting the number of times customers can switch in a year would limit the administrative costs of switching. The potential number of customers who would switch more than one time in a year is likely quite small. The Committee suggests that the utilities track the frequency and costs of customer switching and advise the PUC if costs are higher than estimated.

Richard Pine representing AOI voted in favor of Option B. Ken Quaranta representing PacifiCorp voted in favor of Option C. Rebecca Hathhorn representing PUC Staff abstained from the vote because she considered this issue to be a rate making issue. Thor Hinckley representing PGE also abstained from the vote.

Marketing

The Committee feels strongly that marketing beyond consumer awareness and education is essential and directly tied to the success of the portfolio options. In addition, the Committee discussed the inherent unfairness for the utility company if it were not able to market its own product separate from the other products offered. The winning suppliers of the other options will market their own products and marketing costs will be embedded in the price of their products. Therefore, the Committee voted on two types of add-on options for the utility company.

Adopted 7-to-4:

Option 1 - Utility companies will get a small performance incentive for customer sign-ups and the amount of renewable resources/environmental mitigation that customers commit to. The cost will be embedded in the price of the renewable resource/environmental mitigation products (*not* spread to all customers).

The four dissenting votes were as follows: Rebecca Hathhorn representing PUC Staff, Jason Eisdorfer representing CUB, Dennis Martin representing AARP, and Peter West representing RNP. Greg Applen representing OPUA was not present for the vote.

PUC Staff does not believe the utilities need to be offered an incentive to market options equally. In addition, the utility company should not get an incentive for sign-ups that are due to other suppliers' successful marketing. RNP agrees with that, and also does not want to have an incentive that increases the price of the product. CUB and AARP concur with both PUC Staff and RNP.

Those voting in favor believe that the utility companies need an incentive to effectively market all portfolio options. Some Committee members believe that if the utility companies have no reason to do a good job, marketing of portfolio options should be bid out.

Adopted 9-to-2:

Option 2 - Utility companies may spend additional dollars to market their own renewable resource block product (e.g., Blue Sky/Clean Wind) at PUC-approved rates. These marketing costs will be embedded in the price of the utility company's block product. The additional dollars will put marketing of Blue Sky/Clean Wind on par with competing renewable resource/environmental mitigation products. The suppliers of the competing products embed their marketing costs in the price of their products. Utility companies would be at risk for recovering marketing costs, i.e., if the premium in the block product price doesn't cover or exceeds actual marketing costs, utility shareholders would absorb the difference.

The two dissenting votes were the utility companies, Brian Soth of PGE and Ken Quaranta of PacifiCorp. Greg Applen representing OPUA was not present for the vote.

The utility companies don't want their shareholders to be at risk for recovering marketing costs that exceed costs embedded in the price of the product. PGE believes that achievement of goals with respect to market penetration of renewables should be rewarded. There are many mechanisms available through which performance can be rewarded. Many, but not all, members of the Committee wish to see higher penetration of renewables. Reward mechanisms are consistent with this position.

<u>Delivery Date for Power for New Renewable Resource Options</u>

Adopted unanimously: For the portfolio options offered through December 2002, the Committee recommends a delivery date of new renewable resources within two years of effective date of customer sign-up.

<u>Information on Portfolio Enrollment Materials</u>

Adopted unanimously: The Committee recommends that portfolio enrollment materials include the website addresses of the suppliers of the portfolio options to make it easy for customers to get more information.

Adopted unanimously: The Committee recommends that portfolio enrollment materials include the phone numbers and website addresses of the PUC and the utility company so customers know where to get more information on customer choice. PacifiCorp agreed, but noted that it is concerned with the possible adverse impact on customer service levels that could occur during the enrollment period and wants the Commission to be aware of this potential.

<u>FUTURE ACTIVITIES</u>

April – Feedback by the Committee on proposed bidding process

April – Recommendation to the Commission by the Committee on consumer education/marketing

April/May – Utilities acquire the resources as approved by the Commission

June 1 –Utilities file tariffs with proposed rates

August 1 – Final approval of tariffs by the Commission

Mid-August - Portfolio enrollment materials to customers

Ongoing – Recommendations to the Commission to change, add or drop portfolio options to accommodate use of public purpose funds, success or failure of options, and changing market conditions

SUMMARY RECOMMENDATION:

Staff recommends the Commission adopt recommendations 1 through 9 and 11 through 13. Staff's counsel, Paul Graham, has advised Staff that recommendation number 10 cannot be approved in this forum. Recommendation number 10 should be reviewed and approved through the rate case proceedings currently pending before the Commission (UE 115 and UE 116).