ORDER NO. 03-393

ENTERED JUL 08 2003

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1020

In The Matter of	)	
	)	
PORTFOLIO ADVISORY COMMITTEE	)	ORDER
	)	
Recommendation for Portfolio Options pursuant to ORS 757.603(2) and OAR 860-038-0220.	)))	

DISPOSITION: PORTFOLIO OPTIONS ADOPTED WITH CONDITIONS.

In November 2000, the Commission appointed members to a Portfolio Advisory Committee (Committee) to develop portfolio options in accordance with ORS 757.603(2). Pursuant to OAR 860-038-0220(3) and (9), the Committee is required to make annual recommendations regarding the electric product and pricing options to be offered to residential and small non-residential customers.

On June 23, 2003, the Committee submitted to the Commission its recommendation for portfolio options to be offered in 2004. The Committee's report is attached as Appendix A and incorporated by reference.

DISCUSSION

The Committee made two primary recommendations. First, the Committee recommends that the Commission authorize PacifiCorp to discontinue its Seasonal Flux option after 2003. Second, the Committee recommends that the Commission authorize Portland General Electric (PGE) and PacifiCorp to continue to offer a Time-of-Use (TOU) option for customers in 2004, under conditions identified in Staff's report.

At its public meeting on July 1, 2003, the Commission adopted the Committee's recommendations.

ORDER

IT IS ORDERED that the Portfolio Advisory Committee's recommendations for Portfolio Options for 2004, made pursuant to ORS 757.603(2) and OAR 860-038-0220, are adopted.

Made, entered and effective ___________________________________.

BY THE COMMISSION:

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Becky L. Beier
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.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 1, 2003

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** ________________________

DATE: June 23, 2003

TO: John Savage though Lee Sparling and Jack Breen III

FROM: Janet Fairchild on behalf of the Portfolio Advisory Committee

SUBJECT: PORTFOLIO ADVISORY COMMITTEE: Recommendations for 2004 Market Based Portfolio Options.

SUMMARY RECOMMENDATIONS:

The Portfolio Advisory Committee (PAC or the Committee) recommends that the Commission authorize PacifiCorp to discontinue its Seasonal Flux option after 2003.

The Committee recommends that the Commission authorize the utilities to continue to offer a Time-of-Use (TOU) option for customers in 2004, under the following conditions:

1. PacifiCorp will implement a TOU rate structure that is revenue neutral with the cost of service rate and that provides a better opportunity for the average customer to save than the present structure provides effective Jan.1, 2004.

2. PGE will reduce its TOU meter charge for residential single-phase customers to $1 per month effective Jan. 1, 2004.

3. The utilities will target any marketing of the TOU option to high-usage customers.

4. The utilities will continue the customer guarantee for the first 12-months of the customer's participation.

5. By March 30, 2004, PGE and PacifiCorp will each submit estimates of current and projected benefits and costs associated with their TOU offerings. The estimates of benefits should include, but not be limited to, system cost savings for energy and capacity achieved through load shifting. The utilities also will address benefits that are difficult to quantify, including customer education, improvements in the companies' ability to gather usage data, potential system cost savings from distribution and transmission if the program were more

widespread, and the potential to increase savings by adding direct load control and critical peak pricing.

6. The utilities will report to the PAC by March 30, 2004 on potential energy rate changes for 2005 to increase system benefits and participant savings.

The Committee also recommends that the Commission require that there be no per-customer transfer payments in future contracts with suppliers for renewable resource options at the end of the contract term.

DISCUSSION:

The current portfolio of options offered to PGE and PacifiCorp customers includes: a Time of Use option and (for PacifiCorp) a Seasonal Flux option, a Fixed Renewable (Block) option, a Renewable Usage (Blended) option, and a Habitat Restoration (Habitat or Environmental Mitigation) option. Customers are also offered a basic service (regulated cost of service rate) option. ORS 757.603(1)(a) required that the basic service option be offered, but it is not considered one of the portfolio options.

As required by OAR 860-038-0220(3) and (10), PAC makes annual recommendations to the Commission regarding the portfolio of electric product and pricing options to be offered to residential small non-residential customers. Recommendations regarding renewable options to be offered for the January 2004 to December 2006 term were approved at the Commissions March 31, 2003 public meeting. *See Commission Order No. 03-208.*

The Time of Use and Seasonal Flux options are market based and meet the requirements of ORS 757.603(2)(b). The Committee recommendations regarding these market-based options are the topic of this memorandum.

<u>PacifiCorp's Seasonal Flux</u> : PacifiCorp presented research on the Seasonal Flux option at the Committee's April 23, 2003 meeting. The research shows that although nearly all Seasonal Flux participants saved money on the program, the savings were negligible and residential and commercial customers used **more** energy than they had during two out of three of the prior year's highest priced months. (Data was normalized for weather.)

Based on these results, PacifiCorp representative Paul Wrigley moved that *"The Committee recommends that the Seasonal Flux option be discontinued after 2003."* The Committee voted unanimously in favor of the motion.

TOU Options: PGE and PacifiCorp presented TOU research results at the April 23, 2003 meeting. Bill savings for average TOU customers were disappointing.[1] PacifiCorp's TOU residential customers paid an average of 10 cents more per month (including meter charges). They used 21 percent of their energy during on-peak hours, compared to the 23 percent on-peak usage for average cost-of-service customers.

PGE residential TOU customers paid an average of 24 cents more per month than cost of service customers. An average of 18.3 percent of their energy usage was on-peak , compared to 20.6 percent average on-peak usage for PGE's cost-of-service customers.

Because of PacifiCorp's inclining block structure for residential cost-of-service, the current TOU rate structure results in bill savings for higher usage customers (1,500 kWh or more per month), regardless of whether they shift any on-peak load. Conversely, average and smaller usage customers (1,000 kWh per month or less) do not save under PacifiCorp's current rate structure, even when shifting as much as 50 percent of their on-peak load.

PGE does not have the same inclining block rate structure. Because the rate is designed to be revenue neutral, customers with an average usage pattern (for on-, mid- and off-peak usage) that do not shift some on-peak load will not have any bill savings to offset the monthly meter charges. Still, average customers cannot save on the rate option. PGE's data show that the typical residential customer who shifts even 20 percent of on-peak usage pays more on the TOU option than on cost of service. That amount of load shifting is likely far more than is possible for most households.

The research results and alternative TOU price structures and market-based offerings were considered at TOU subcommittee meetings on May 12, and June 16, 2003 and at full Committee meetings on May 29, June 13, and June 19, 2003. A preferable market based offering that could be implemented for 2004 was not identified. Although participants on average have not realized significant savings, some customers are doing well on the TOU option, and it offers several benefits, including: a reduction of long-term system energy, transmission, and distribution costs, customer education that power costs more during peak hours, and increased utility experience with customers' response to pricing that varies depending on when they use energy. Therefore, the Committee recommends that the TOU options continue, with revisions to the utilities' rate structures and conditions discussed below.

[1] On average, TOU customers use less energy overall than typical cost-of-service customers. If TOU customers' total usage were as high as the typical cost-of-service customers total usage, the on-peak usage differential would be about 10 percent.

1. PacifiCorp will implement a TOU rate structure that is revenue neutral with the cost of service rate and that provides a better opportunity for the average customer to save than the present structure provides effective Jan. 1, 2004.

The Oregon Office of Energy (OOE) and PacifiCorp offered alternative rate structure proposals for the Committee to consider. One of PacifiCorp's proposals provides a surcharge for on-peak usage and a credit for off-peak usage. The Committee believes that this option is simplest for customers to understand and provides the best alternative for offering customers appropriate bill savings while educating them about their on-and off-peak usage patterns. A description of PacifiCorp's proposed rate structure is attached to this memo. The Committee intends to support this rate structure when it is filed with the Commission.

2. PGE will reduce its TOU meter charge for residential single-phase customers to $1 per month effective Jan. 1, 2004.

The consensus among Committee members is that reducing the residential single-phase meter charge from $2.00 to $1.00 per month will help average usage households recognize at least some savings under the TOU option. This reduction could create a limited meter cost shift from TOU customers to all eligible customers. However, the overall system benefits TOU customers provide by shifting load off high cost peak hours should offset any cost shifts. Therefore, the limited cost shift that the reduced meter charge may cause does not violate ORS 757.603(3)(a), which requires the commission to reasonably ensure that the costs and risks of serving each option are reflected in the rates for each option.

3. The utilities will target any marketing of the TOU option to high-usage customers.

High usage customers are more likely to save under either utilities' TOU rate structure. They are also able to shift more load, thus providing more benefit to the system as a whole. Logically, it follows that marketing should be targeted at high usage customers.

4. The utilities will continue the customer guarantee for the first 12-months of the customer's participation.

The 12-month customer guarantee provides that, during a customer's first 12 months of participation in the TOU program, they will not be charged more than 10 percent above what they would have paid under the cost of service rate. The allows customers the opportunity to try the TOU option for one year, to determine if they can actually shift enough load to save money, without incurring too much additional expense if they fail. The general consensus of the Committee is that this is an important feature of the program that should continue.

5. *By March 30, 2004, PGE and PacifiCorp will each submit estimates of current and projected benefits and costs associated with their TOU offerings. The estimates of benefits should include, but not be limited to, system cost savings for energy and capacity achieved through load shifting. The utilities also will address benefits that are difficult to quantify, including customer education, improvements in the companies' ability to gather usage data, potential system cost savings from distribution and transmission if the program were more widespread, and the potential to increase savings by adding direct load control and critical peak pricing*.

6. *The utilities will report to the PAC by March 30, 2004 on potential energy rate changes for 2005 to increase system benefits and participant savings*.

The information provided from conditions five and six will allow the Committee and the utilities to better determine what changes, if any should be made to the program in the future.

End of Contract Term Issue: Both PGE and PacifiCorp are currently soliciting bids to procure tradable renewable credits and marketing services for the 2004-2006 *Blended Renewable* and *Environmental Mitigation* portfolio options. The solicitation will culminate in the utilities entering into contracts for services. Under the terms of the PGE's contract with its current supplier for these services, either all current customers will have to opt-into[2] the options when the supplier changes or the current supplier is entitled to a per-customer transfer payment. The consensus among Committee members is that both alternatives are extremely undesirable. An opt-in process will result in decreased enrollment and a transfer payment results in a competitive advantage to the incumbent supplier, who would not be subject to the payment.

At its June 19, 2003 the Lisa Schwartz, from the Oregon Office of Energy made the following motion to ensure that similar provisions are not included in future contracts.

The Committee recommends that the Commission require that there be no per-customer transfer payments in future contracts with suppliers for renewable resource options at the end of the contract term.

[2] An opt-in process would require all current customers would be removed from the program and would have to sign up again under the new supplier.

The motion passed, with members, Tooze, Eisdorfer, Bissonnette, and Schwartz voting in favor of the motion. Diane Zipper, serving as proxy for Natalie McIntire, also voted for the motion. Members Kuns and Fairchild voted against the motion, and Paul Wrigley abstained. Kuns and other PGE representatives pointed out that the requirement may have unintended ramifications.

While Fairchild agrees with the majority of Committee members that such provisions should not be included in future contracts, she also agrees with PGE, that limiting the utilities ability to negotiate contract terms may have unforeseen consequences. She does not believe that the Committee, or the Commission should bind the utilities in regard to how future contracts should be written.

Although the Renewable Northwest Project (RNP) representative voted for the measure, the organization remain concerned that clear incentives to future marketers are put in place to ensure that the programs are promoted throughout the contract term. They plan to again raise the issue with the Committee before future recommendations regarding renewable offerings are brought before the Commission.

PROPOSED COMMISSION MOTION:

PacifiCorp be authorized to discontinue its Seasonal Flux option after 2003, and that PGE and PacifiCorp be authorized to continue to offer a Time-of-Use (TOU) option to customers in 2004, under the following conditions:

1. PacifiCorp will implement a TOU rate structure that is revenue neutral with the cost of service rate and that provides a better opportunity for the average customer to save than the present structure provides, effective Jan. 1, 2004.

2. PGE will reduce its TOU meter charge for residential single-phase customers to $1 per month effective Jan. 1, 2004.

3. The utilities will target any marketing of the TOU option to high-usage customers.

4. The utilities will continue the customer guarantee for the first 12-months of the customer's participation.

5. By March 30, 2004, PGE and PacifiCorp will each submit estimates of current and projected benefits and costs associated with their TOU offerings. The estimates of benefits should include, but not be limited to, system cost savings

for energy and capacity achieved through load shifting. The utilities also will address benefits that are difficult to quantify, including customer education, improvements in the companies' ability to gather usage data, potential system cost savings from distribution and transmission if the program were more widespread, and the potential to increase savings by adding direct load control and critical peak pricing.

6. The utilities will report to the PAC by March 30, 2004 on potential energy rate changes for 2005 to increase system benefits and participant savings.

No per-customer transfer payments may be included in future contracts with suppliers for renewable resource options at the end of the contract term.

PAC 2004 Market-based option Recommendation/JF

PacifiCorp - Oregon

Schedule 210 - TOU

Residential - On/Off Adjustments Proposal

(Rate Unit: cents/kWh)

Monthly Billing

Standard tariff rate (Sch 4 and 200) plus TOU Adjustment and Meter Charge.

Meter Charge: $1.5 per month.

TOU Adjustment = On-Peak Surcharge + Off-Peak Credit = On-Peak kWh x SR + Off-Peak kWh x CR
where SR is on-peak surcharge rate, and CR is off-peak credit rate.

Proposed Adjustments:

Proposed		
	Summer	Winter
On-Peak Surcharge (SR)	5.944	3.210
Off-Peak Credit (CR)	-1.123	-1.123

Present (Sch 210)			COS (Sch 200)	
	Summer	Winter		
on-peak	5.992	5.992	<500 kWh	2.485
mid-peak	3.285	2.598	500-1000 kWh	2.993
off-peak	1.498	1.498	>1000 kWh	3.755

On-Peak Period

Winter - Monday through Friday 6:00 a.m. to 10:00 a.m. and 5:00 p.m. to 8:00 p.m.

Summer - Monday through Friday 4:00 p.m. to 8:00 p.m.

Off-Peak Period

All non-On-Peak Period.

Seasonal Definition

Winter months are defined as November 1 through March 31. Summer months are defined as April 1 through October 31.

Note: Oregon residential average on-peak usage is 15.89% in the Summer and 25.92% in the Winter.