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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

LC 33

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC,)	ORDER
)	
OAR 860-038-0080, Resource Policies and)	
Plans.)	

DISPOSITION: PARTIAL PLAN ACKNOWLEDGEMENT

Portland General Electric (PGE) filed its 2002 Integrated Resource Plan (IRP or Plan) on August 9, 2002. It filed a supplement to the Plan (Supplement) on March 4, 2003. The Plan and the Supplement are intended to meet the requirements of the Public Utility Commission of Oregon's (PUC) Order No. 89-507.

Procedural History

PGE filed its 2002 IRP on August 9, 2002. The IRP was accompanied by a letter requesting that the Commission: 1) acknowledge the resource approaches and specific resource actions proposed in the Action Plan found in Chapter 8 of the IRP in accordance with Order No. 89-507, and 2) find that the IRP meets the requirements of OAR 860-038-0080.

At a September 13, 2002 prehearing conference, the parties agreed that the only issue to be decided in this proceeding is whether PGE's 2002 IRP includes resource approaches and actions that are reasonable and consistent with the Least Cost Planning (LCP) policies and principles set forth in Order No. 89-507. A joint issues list prepared by PUC staff (Staff) and PGE was filed on September 27, 2002 and adopted by the Administrative Law Judge (ALJ) by Ruling of October 7, 2002.

A workshop was held on October 16, 2002, and parties filed comments on October 30, 2002. PGE presented its IRP to the Commission at the special public meeting on November 20, 2002. Staff submitted its draft recommendations regarding the IRP on December 23, 2002. Workshops were held February 10 and 19, 2003, and PGE filed its IRP Supplement on March 4, 2003. Staff and the Oregon Office of Energy (OOE) filed additional comments on March 21 and 24, 2003, respectfully, and PGE filed response comments on April 7, 2003.

Staff recommendations regarding PGE's request for partial acknowledgement of the IRP as described in the March 4, 2003, Supplement to the IRP were presented at the May 6, 2003, public meeting. Due to concerns expressed by several interested parties, no Commission decision was made at the May 6 meeting. Instead, the Commission requested that interested parties file written comments with the Commission by May 29, 2003, before the June 9, 2003, special public meeting.

Overview of PGE's Integrated Resource Plan

In its March 4, 2003, supplement, PGE asked for a two-step acknowledgement process. First, they requested acknowledgement of the August 2002 Action Plan and March 2003 Action Plan Supplement. Specifically, PGE requested acknowledgement of its plan to issue a Request For Proposal (RFP) in the summer of 2003 to meet the resource targets outlined in the Action Plan Supplement. Then, after completion of an RFP process, PGE proposed to submit a "Final Action Plan" for acknowledgement.

The Commission does not believe that acknowledgement of the procedural schedule is necessary. However, we will acknowledge PGE's plan to issue an RFP in accordance with Order No. 91-1383. The results of the RFP process will inform PGE and the Commission regarding the costs of various resource alternatives. Acknowledgement of the Final Action Plan will be dependent on information gleaned through the RFP process, comparison of bids to the costs associated with building Port Westward, and the costs associated with remaining largely dependent on the market.

In its IRP supplement, PGE also asked for acknowledgement of several resource planning assumptions, standards and targets and for acknowledgement of use of certain ratemaking tools for risk mitigation. Staff opposed both of these requests, and at the June 9, 2003, special public meeting, PGE withdrew its request for acknowledgement of these items.

Based on its proposed planning assumptions and standards, PGE identified the following additional energy needs: 300 aMW by 2005, 450 aMW by 2006 and 650 aMW by 2007. PGE further identifies the following additional capacity needs: 870 MW by 2005, 900 MW by 2006, and 950 MW by 2007. We agree with Staff's assessment that these targets are acceptable for the purposes of RFP solicitation, but that they should be subject to further review prior to acknowledgement of PGE's Final Action Plan. Additional analysis and justification of PGE's resource targets will be required prior to approval of the Final Action Plan.

Party Comments

Written comments have been filed by the Citizens' Utility Board of Oregon (CUB), the Renewable Northwest Project (RNP), the Northwest Energy Coalition (NWECC), the Industrial Customers of Northwest Utilities (ICNU), OOE, Northwest Independent Power Producer's Coalition (NIPPC), and Staff.

CUB: CUB filed comments on March 24, 2003, in response to PGE's March 4, 2003, Supplemental IRP filing. CUB stresses that if the ratemaking tools for risk

mitigation proposed by PGE are pursued, it is important that measures are not taken to reduce utility risk without a corresponding reduction in the company's authorized return on equity. CUB also voices concerns that PGE's risk assessment regarding gas prices is insufficient.

RNP: In its comments filed on October 30, 2002, RNP agreed with PGE's stated goal of 310 aMW of market-based renewable purchases by 2020, but asserted that the 40 aMW of new renewable development by 2010 is too conservative. RNP also pointed out that PGE's assumptions regarding the Energy Trust of Oregon (ETO) are not consistent with the ETO's stated goals. RNP challenged PGE's assumptions regarding the cost of wind development and asserts that PGE had not adequately quantified the environmental benefits of wind generation.

On March 24, 2003, RNP filed additional comments based on PGE's March 4, 2003, Supplement. RNP expressed concerns with PGE's intention to continue to rely on fossil fuel and hydro resources. RNP also disagreed with PGE's assumptions regarding the cost of renewable resources, the value of Renewable Energy Credits, carbon taxes, a renewable portfolio standard, and gas price volatility. Finally, RNP recommended additional scoring criteria to be included in PGE's comparison of the bids it receives in response to its RFP.

OOE: In response to PGE's original IRP filing, OOE filed comments on October 29 and November 20, 2002, in which it agreed with PGE's goal of acquiring at least 40 aMW of renewable resources by 2010, but questioned the plan's strategy to obtain the renewable resources in small increments. OOE also questioned PGE's assumption regarding the cost of ancillary service costs for wind, the assumed natural gas price of \$2.50 to \$3.00 per MMBtu, and the lack of consideration given to gas price volatility.

In response to PGE's March 4, 2003, Supplement, OOE filed March 21, 2003, comments that although the Supplement addressed many of the questions and concerns OOE had regarding the original IRP filing, it has remaining questions and concerns about the proposed action plan's demand-side management assumptions and plans, the proposed bidding and resource acquisition process and how the Commission will compare wind and gas-fired generation in the Final Action Plan.

NWEC: filed comments on November 20, 2002, comparing PGE's IRP with PacifiCorp's IRP. NWEC pointed out that the basic assumptions regarding the costs and benefits of wind versus gas-fired combustion turbines differ greatly between the two plans. It asserted that PacifiCorp's assumptions are more accurate and that PGE's assumptions lead to inaccurate conclusions. NWEC recommended that PGE run scenarios using assumptions on gas prices, green tag values, integration costs and carbon externalities that more closely match the estimates used by PacifiCorp.

ICNU: ICNU filed comments on October 31, 2002, to disagree with PGE's original approach to the above-market cost of new renewables. PGE proposed to purchase new renewables at a cost of up to \$5/MWh of above market cost of new non-renewable resources. ICNU asserted that including the above-market cost of new renewables in rates is contrary to the intent of SB 1149. Staff shared ICNU's concern, citing ORS 757.612(3)(g). In its March 4, 2003, Supplement PGE modified its position.

NIPPC: In response to PGE's draft RFP filed May 22, 2003, NIPPC filed comments on May 29, 2003, expressing concerns with the draft RFP and its compliance with Order No. 91-1383. Those concerns are addressed in docket UM 1080.

The Commission believes that the parties raise many valid points that will be considered in the RFP process or in PGE's final action plan.

OPINION

Jurisdiction

PGE is a public utility in Oregon, as defined by ORS 757.005, which provides electric service to or for the public.

On April 20, 1989, pursuant to its authority under ORS 756.515, the Commission issued Order No. 89-507 in docket UM 180 adopting least-cost planning for all energy utilities in Oregon.

Requirements for Least-Cost Planning Under Order No. 89-507

Order No. 89-507 establishes procedural and substantive requirements for least-cost planning and provides for the Commission's acknowledgement of plans that meet the requirements of the order.

Procedural Requirements: At a minimum, the least-cost planning process must involve the Commission and public prior to making resource decisions rather than after the fact. *See* Order No. 89-507 at 3.

According to its August 9, 2002, IRP filing, PGE hosted six public meetings before submitting its original IRP. The procedural history in this proceeding shows that five open workshops have been held and two rounds of written comments from interested parties have been received since the original IRP was submitted.

Based on its review, Staff has determined that PGE's actions to date in this proceeding have included involvement from the Commission and the public. PGE has stated its intent to continue soliciting public input by participating in a workshop to review its RFP prior to issuing the bid solicitation. The workshop will be held as part of the Order No. 91-1383 proceeding.

Substantive Requirements: The substantive requirements were set forth in Order No. 89-507 as follows:

1. All resources must be evaluated on a consistent and comparable basis.
2. Uncertainty must be considered.

3. The primary goal must be least cost to the utility and its ratepayers consistent with the long-run public interest.
4. The plan must be consistent with the energy policy of the state of Oregon as expressed in ORS 469.010.

Based on its review, Staff determined that PGE's proposal to issue an RFP is consistent with the substantive requirements of Order No. 89-507. During a separate proceeding to determine if PGE's RFP is in compliance with the provisions of Order No. 91-1383, the company's solicitation and evaluation criteria were reviewed to further ensure that the goals of Order No. 89-507 are met.

Commission Findings

Staff recommends acknowledgment of PGE's plan to issue an RFP to meet the resource targets outlined in the company's March 4, 2003, Supplement to its 2002 Integrated Resource. Based on results of the RFP bid process and further review of resource targets, PGE will issue its Final Action Plan in August of 2003. The Commission agrees that a Final Action Plan, based on the results of the RFP process, should be submitted by PGE for final Commission acknowledgement.

EFFECT OF THE PLAN ON FUTURE RATE-MAKING ACTIONS

Order No. 89-507 sets forth the Commission's role in reviewing and acknowledging a utility's least-cost plan, as follows:

The establishment of least-cost planning in Oregon is not intended to alter the basic roles of the Commission and the utility in the regulatory process. The Commission does not intend to usurp the role of utility decision-makers. Utility management will retain full responsibility for making decisions and for accepting the consequences of the decisions. Thus, the utilities will retain their autonomy while having the benefit of the information and opinion contributed by the public and by the Commission.

Plans submitted by utilities will be reviewed by the Commission for adherence to the principles enunciated in this order and any supplemental orders. If further work on a plan is needed, the Commission will return it to the utility with comments. This process should eventually lead to acknowledgement of the plan.

Acknowledgement of a plan means only that the plan seems reasonable to the Commission at the time the acknowledgment is given. As is noted elsewhere in this order, favorable rate-

making treatment is not guaranteed by acknowledgement of a plan. Order No. 89-507 at 6 and 11.

This order does not constitute a determination on the ratemaking treatment of any resource acquisitions or other expenditures undertaken pursuant to PGE's 2002 IRP or its IRP Supplement. As a legal matter, the Commission must reserve judgment on all ratemaking issues. Notwithstanding these legal requirements, we consider the least-cost planning process to complement the ratemaking process. In rate-making proceedings in which the reasonableness of resource acquisitions are considered, the Commission will give considerable weight to utility actions that are consistent with acknowledged least-cost plans. Utilities will also be expected to explain actions they take which may be inconsistent with Commission-acknowledged plans.

Conclusion

PGE's plan to issue an RFP in the summer of 2003, in accordance with the provisions of Order No. 91-1383, to meet the resource targets outlined in the company's March 4, 2003, Supplement to its 2002 Integrated Resource is acknowledged. Completing a well-executed RFP process will contribute meaningfully toward the acquisition of least-cost resources.

ORDER

IT IS ORDERED that Portland General Electric's plan to issue a Request For Proposal in the summer of 2003, in accordance with the requirements of Order No. 91-1383, to meet the resource targets outlined in the company's March 4, 2003, Supplement to its 2002 Integrated Resource, is acknowledged in accordance with the terms of this order and Order No. 89-507.

Made, entered, and effective _____.

Roy Hemmingway
Chairman

Lee Beyer
Commissioner