ORDER NO. 04-516

ENTERED SEP 14 2004

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1081

In the Matter of	)	
	)	
PUBLIC UTILITY COMMISSION OF	)	
OREGON	)	ORDER
	)	
Investigation into Direct Access Issues for	)	
Industrial and Commercial Customers	)	
Under SB 1149.	)	

DISPOSITION: INTERIM TRANSITION ADJUSTMENT MECHANISM ADOPTED

INTRODUCTION

In this order, we modify PacifiCorp's transition adjustment mechanism and instruct PacifiCorp to implement these modifications prior to PacifiCorp's Fall 2004 open enrollment window for direct access (enrollment window). We approve a revised transition adjustment to facilitate eligible customers' election of direct access during PacifiCorp's upcoming enrollment window, or pursuant to PacifiCorp's Oregon Market Kick-Start Program Experimental Service (Kick-Start) that is currently available until June 30, 2005.

We expect the adopted modifications to be transitional, however, and direct PacifiCorp to continue working with the Public Utility Commission of Oregon (Commission) Staff (Staff) and interested parties to further revise and refine PacifiCorp's transition adjustment. We agree with parties that further revisions may be necessary to implement an accurate and equitable transition adjustment in the long run. We are hopeful, however, that interim transition adjustment revisions will stimulate participation in direct access in PacifiCorp's service territory in the short term and thereby inform the design of further improvements.

BACKGROUND

Recognizing that transitional measures would be necessary to implement direct access in the state, the Oregon Legislature provided for the imposition of transition charges or credits, pursuant to ORS 757.607(2), to value utility resources impacted by direct access. [1] The Commission adopted administrative rules to facilitate this valuation and to develop a transition adjustment mechanism for each utility.[2]

A transition adjustment methodology for PacifiCorp was first addressed by the Commission and interested parties in Docket No. UE 116. As a result of settlement discussions in that docket, Staff, PacifiCorp and the Industrial Customers of Northwest Utilities (ICNU) stipulated to terms for a transition adjustment mechanism for PacifiCorp.[3] In Order No. 01-787, entered on September 7, 2001, the Commission adopted the transition adjustment agreed to by the stipulating parties. This transition adjustment was implemented as PacifiCorp Schedule 294 and is currently in effect.

PacifiCorp acknowledges that its current transition adjustment is based on a pure "market-minus" approach, as it equals the market value of freed up energy resources at the Mid-Columbia (Mid-C) minus transmission costs that would be associated with the sale of power at the Mid-C (e.g., a Federal Energy Regulatory Commission (FERC) wheel and losses from the power source to PacifiCorp's border and a Bonneville Power Administration (BPA) wheel and losses from PacifiCorp to Mid-C). Thus, the current PacifiCorp transition adjustment assumes that direct access will cause PacifiCorp to have surplus power that it must sell and values the freed up energy resources based upon an assumed sale at the Mid-C. The current PacifiCorp transition adjustment does not recognize that transmission resources will be freed up, assuming instead that they will be used to execute the sale of energy resources. Consequently, valuation of freed up energy resources is reduced by the valuation of transmission resources that are assumed to be consumed.

Schedule 294 provides for PacifiCorp to record, in a balancing account, the difference between the transacted value and the forward price curve value of the power used for setting the transition adjustment. The accrued amount would be recovered or credited in the transition adjustment for the subsequent period.

No customers have elected direct access in PacifiCorp's service territory, however, and the transition adjustment mechanism has been faulted as a possible impediment. On May 1, 2003, the Commission opened this docket to investigate outstanding

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[1] ORS 757.607(2) provides: "The direct access, portfolio of rate options and cost-of-service rates may include transition charges or transition credits that reasonably balance the interests of retail electricity consumers and utility investors. The commission may determine that full or partial recovery of the costs of uneconomic utility investments, or full or partial pass-through of the benefits of economic utility investments to retail electricity consumers, is in the public interest."

[2] OAR 860-038-0140(1) requires Oregon utilities to "use an ongoing valuation method to determine the transition costs or transition credits applicable to Oregon cost-of-service customers," except in the circumstances set forth in OAR 860-038-0080(5). OAR 860-038-0005(41) defines "ongoing valuation" as "the process of determining transition costs or benefits for a generation asset by comparing the value of the asset output at projected market prices for a defined period to an estimate of the revenue requirement of the asset for the same time period."

[3] *See Stipulation on Standard Offer and Transition Credit Among OPUC Staff, PacifiCorp and ICNU, Appendix C to Order No. 01-787.*

direct access implementation issues.[4] After a prehearing conference on May 6, 2003, a series of workshops and task group meetings were undertaken to collaboratively address the identified issues and to make recommendations to the Commission. The application and calculation of a transition adjustment charge for customers electing direct access service was identified as a significant issue.

Following workshops and meetings of the direct access task groups, Staff prepared an informational *Staff Report on Direct Issues for the Public Meeting* (Staff Report), dated August 11, 2003, that reported on progress in this docket. The Staff Report indicated that "significant barriers remain in relation to transition adjustments." The Staff Report announced proposals by PacifiCorp to change its direct access offerings. In addition to modifications to its standard one-year offering, PacifiCorp proposed offering the one-year, experimental Kick-Start Program. Parties continued collaborative efforts to refine the proposals.

On February 10, 2004, Administrative Law Judge (ALJ) Kathryn Logan issued a memorandum memorializing commitments made to date by workshop participants. This memorandum indicated that issues involving PacifiCorp's transition adjustment required resolution in a formal proceeding, and indicated a prehearing conference would be held in the near future to undertake such an effort.

On February 26, 2004, ALJ Logan and ALJ Traci Kirkpatrick held a prehearing conference to identify parties and to establish a procedural schedule. The following entities became parties to the formal proceeding: PacifiCorp; Portland General Electric Company (PGE), ICNU; EPCOR Merchant and Capital (US) Inc. (EPCOR); Sempra Energy Solutions (Sempra); Strategic Energy LLC (Strategic Energy); Constellation NewEnergy, Inc. (Constellation); and the Portland Metropolitan Association of Building and Managers (BOMA). Prefiled testimony was submitted and ALJ Kirkpatrick presided over a hearing on July 14, 2004. The parties filed opening and reply briefs to the Commission on August 3, 2004 and August 13, 2004, respectively, and made oral arguments on August 16, 2004.

Meanwhile, on February 13, 2004, PacifiCorp filed Advice No. 04-001, seeking the Commission's approval of Schedule 780 to implement the Company's experimental Kick-Start program, to be effective as of July 1, 2004. On April 13, 2004, PacifiCorp amended its filing to reflect changes suggested at a UM 1081 workshop held on March 19, 2004. At a Public Meeting, on April 27, 2004, the Commission approved PacifiCorp's Kick-Start program.

PacifiCorp's Kick-Start program became available as of July 1, 2004, and will be offered until June 30, 2005. Under Kick-Start, customers with loads over 1 MW or loads over 200 kW that aggregate to at least 2 MW are eligible to obtain service from an Electricity Service Supplier (ESS) for a term of 6, 12, 18, 24 or 36 months. Kick-Start is limited to the first 100 MW of qualifying load. Eligible customers may elect the Kick-Start program on

[4] *Re An Investigation into Direct Access Issues for Industrial and Commercial Customers under SB 1149*, Docket No. UM 1081, Order No. 03-260 (May 1, 2003).

any business day, except during the one-week annual enrollment window for PacifiCorp's standard direct access program.

Despite attractive program features, Staff expressed "reservations about whether the program will provide a viable opportunity for customers." A primary concern was application of PacifiCorp's existing transition adjustment mechanism, which both electric service suppliers (ESSs) and customers objected to. The Staff Report that recommended approval of the Kick-Start program acknowledged the proceedings in this docket and indicated that any adopted changes to the transition adjustment methodology should be reflected in the Kick-Start tariff. Consequently, on April 27, 2004, the Commission approved Kick-Start at a Public Meeting with the express understanding that an updated transition adjustment would be applied to Kick-Start.[5]

PARTICIPANTS' POSITIONS

PacifiCorp, Staff, ICNU and EPCOR filed opening and rebuttal testimony, as well as opening and rebuttal briefs that presented evidence and legal arguments regarding revisions to PacifiCorp's existing transition adjustment on both a short and long term basis. In this order, we focus primarily on facts and issues pertinent to evaluation of an appropriate interim transition adjustment mechanism for PacifiCorp.

<u>Staff</u>

Staff was the first to propose that an interim transition adjustment mechanism be implemented for the Fall 2004 enrollment window while work continued on development of a long-range transition adjustment. Staff proposed an interim methodology because further work is needed to develop a transition adjustment methodology capable of greater precision in measuring the effects of direct access. In both the short and long terms, Staff recommends that the Commission evaluate and select a revised transition adjustment mechanism for PacifiCorp based on how accurately the approach reflects the likely impacts of direct access on PacifiCorp's operations.

In the long term, Staff urges the Commission to require PacifiCorp to use a GRID-based approach to calculate its transition adjustment. Staff requested that the Commission direct PacifiCorp to make a compliance filing to implement a GRID-based transition adjustment no later than October 1, 2004. Staff recommends that a GRID-based transition adjustment be used for all direct access enrollment windows after Fall 2004.

GRID is PacifiCorp's power cost model that is currently used to establish power costs included in cost of service rates. Staff ran GRID model projections of PacifiCorp's operational responses when its system was in balance, to various levels of load losses. GRID indicated that the impact of direct access on PacifiCorp's operations would be multidimensional. At each level of direct access participation, the GRID model rebalances PacifiCorp's system with a different mix of increased sales, avoided purchases, and reduced

[5] Staff Report at 1 (Kick-Start should be approved "with the understanding that PacifiCorp will amend Schedule 780 to reflect any future changes to the methodology used in calculating its transition adjustment.").

generation. Staff's testimony included an exhibit showing GRID net power cost model projections of PacifiCorp's operations in response to various levels of direct access participation. *See* Exhibit Staff/102.

Despite its position that a GRID-based transition adjustment offers the most precise and accurate accounting of the impact that direct access is likely to have on PacifiCorp's operations, costs and revenues, Staff recognizes that the approach requires additional refinement before implementation. As a result, Staff recommends that the Commission adopt an interim transition adjustment that replaces the current transition adjustment, which would be superceded by implementation of a GRID-based transition adjustment.

Staff proposes implementation of an interim, "market-even" transition adjustment mechanism. Staff's approach assumes that the impact of direct access on PacifiCorp's operations will be an equal mix of increased sales and avoided purchases. Staff argues that this assumption better approximates the multidimensional response indicated by GRID, by assuming two of three potential, operational responses. Staff's methodology would continue to value freed up energy resources at the Mid-C, but assumes that transmission resources used to make sales of surplus power at the Mid-C will be offset by avoided transmission related to avoided energy purchases, thereby resulting in no net adjustment.

<u>PacifiCorp</u>

PacifiCorp changed its position between opening and rebuttal testimony. In direct testimony, PacifiCorp proposed modifying its existing transition adjustment mechanism, which always assumes a sale of power in response to direct access load losses, in the event that less than 25 MW of load gave notice during the enrollment window. Indicating a sale at Mid-C is not practical unless a 25 MW block of power or more is freed up, PacifiCorp proposed to eliminate the requirement of a market sale of freed up resources. In doing so, transmission costs associated with a sale would no longer be a factor and the transition credit, should no more than 25 MW elect direct access, would equal valuation at the Mid-C minus PacifiCorp's cost of service.

PacifiCorp stated that it would proceed with a sale (or sales) at the Mid-C under two circumstances, however. A sale at Mid-C would be presumed if the requisite 25 MW block of power elected direct access, or if considerable market movement during the enrollment window created a significant difference between the forward price curve and the Mid-C price. If a sale at Mid-C was made, PacifiCorp proposed to account for the difference between the transacted price and the forward price curve in a balancing account to be recovered, or credited, in the transition adjustment for the subsequent period. PacifiCorp would also include the cost of certain BPA transmission services in the balancing account treatment.

In rebuttal testimony, PacifiCorp jettisoned its originally proposed transition adjustment mechanism to largely support Staff's recommendations regarding an interim transition adjustment and ongoing development of a GRID-based approach for the longer term. PacifiCorp deviated from Staff only to point out an error in the proposed transition adjustment calculation that would result in a double credit and to propose an alternate due date for the Company to file a long-range, GRID-based transition adjustment.

PacifiCorp proposes an interim transition adjustment methodology that equals the difference between the forward price at the Mid-C and the Company's cost of service rate, without charges or credits for delivering power to PacifiCorp's system from the power source or delivering the power to Mid-C for a sale. Regardless of the level of direct access participation, PacifiCorp agrees to remove all costs associated with transmission between the Company's system and Mid-C. PacifiCorp discovered, however, that the Company's cost of service rate includes state-regulated ancillary services and wheeling and distribution losses and pointed out the need to credit these costs to remove all transmission costs incurred to deliver power to and from the system. Thus, PacifiCorp proposes to calculate the interim transition adjustment by subtracting the Company's cost of service rate from the Mid-C forward price and then adding back the cost of state regulated distribution losses by PacifiCorp. PacifiCorp clarified in its rebuttal brief that it no longer proposes balancing account treatment for sales of power transacted in response to significant direct access load losses, but only sales characterized by market movement during the enrollment window resulting in a significant difference between the forward price curve and the Mid-C. The Company proposes to recover costs receiving balancing account treatment through Schedule 293 from all customers eligible for direct access.

Regardless of the nature of the transition adjustment, PacifiCorp consistently proposes using the Mid-C hub alone to value energy resources. PacifiCorp asserts that the Mid-C is the appropriate price point for various reasons, including that the Mid-C is the most liquid point of delivery in the forward market in the Northwest. PacifiCorp also states that valuation at the Mid-C would result in a minimal price difference between the sale of freed up power and the probable price paid by an ESS serving a direct access customer.

Without addressing the implications of the net zero valuation of transmission resources under the market-even transition adjustment mechanism, PacifiCorp asserts that no value from freed up transmission resources will ever be realized. PacifiCorp states that its BPA transmission to and from Mid-C is Formula Power Transmission (FPT), not Point to Point, and that PacifiCorp may not assign or resell its FPT rights. PacifiCorp argues that even if PacifiCorp could avoid a purchase as a result of direct access load loss, it could neither avoid purchasing transmission nor resell the freed up transmission to capture any value.

Representing that all parties agree that a GRID-based transition adjustment mechanism is appropriate, PacifiCorp requests authority to file a GRID-based transition adjustment methodology on or before November 15, 2004, to be effective for the November 2005 shopping window. In its opening brief, PacifiCorp proposed holding workshops on a GRID-based methodology on October 4, 2004 and October 22, 2004, and promised to integrate feedback from these workshops into its November 15 filing. PacifiCorp would apply any superceding transition adjustment mechanism beginning in Fall 2005.

As initially modeled, a GRID-based transition adjustment methodology is founded on two key assumptions about PacifiCorp's operations. One operational assumption is that PacifiCorp balances its load and resources to a nominally flat position on a rolling 24-month (or more) period. The second operational assumption is that PacifiCorp does not assume the loss of direct access load until declaration. Based on these two assumptions, GRID has modeled PacifiCorp's short-notice operational response, when the system is in load and resource balance to various losses of load.

ICNU

ICNU supports implementation of an interim transition adjustment and continued development of a long-term mechanism, but proposes that the Commission approve alternative methodologies to value PacifiCorp's energy and transmission resources on both an interim and long-term basis. ICNU argues that a properly designed transition adjustment for PacifiCorp would accurately value all resources not utilized by departing direct access customers, including transmission, and eliminate barriers to direct access. ICNU urges the Commission to approve a transition adjustment, in the long and short terms, that is founded on an avoided purchase methodology (referred to by other entities as a "market-plus" approach). ICNU's approach would value both transmission and energy presumed to be avoided when an energy purchase is avoided. ICNU takes the position that any interim transition adjustment that excludes the value of freed up transmission will continue to thwart direct access and fail to meet legislative objectives. As none of the proposed interim transition adjustment mechanisms perfectly reflects PacifiCorp's operational responses or the true value of impacted resources, ICNU opines that the Commission should approve ICNU's methodology because it offers the best opportunity to stimulate direct access participation.

ICNU argues that PacifiCorp's transition adjustment, both in the short and long terms, should model PGE's transition adjustment by assuming that PacifiCorp can avoid power purchases and the associated transmission costs. ICNU asserts that PacifiCorp's position that the value of unutilized transmission resources cannot be credited, due to the nature of the Company's transmission assets, is both unproven and inconsistent with legislative requirements. ICNU also challenges PacifiCorp's position that it achieves load and resource balance over a rolling 24-month period, and indicates that PacifiCorp may be long or short in any given month.

In ICNU's view, PacifiCorp's flawed assumption that it is in load and resource balance on a rolling 24-month basis, combined with its stance that direct access load should not be anticipated prior to notice, undermines the ability of the GRID model to accurately reflect the Company's operational response to direct access load loss. Consequently, although ICNU agrees that PacifiCorp should be required to make a new filing to develop a long-term transition adjustment mechanism, ICNU disagrees that it is a foregone conclusion that the long-term transition adjustment should be GRID-based. ICNU asserts that PacifiCorp should anticipate the loss of direct access load in the future, and modify its operational planning assumptions, accordingly.

ICNU argues that the interim transition adjustment should value energy resources based on the average forward market price at four market hubs: the Mid-C, the California Oregon Border (COB), Palo Verde and Four Corners. ICNU observes that this methodology conforms to PacifiCorp's calculation of imbalance settlements under its FERC Open Access Transmission Tariff (OATT) and reflects PacifiCorp's use of its entire operational system to serve its Oregon service territory.

Asserting that PacifiCorp's cost of service rates are based on PacifiCorp's operation as an integrated utility with access to four market hubs and the ability to buy and sell power at the best market prices, ICNU posits that the transition credit applied to direct access customers should reflect this advantage. ICNU also argues that valuation of energy resources based on a sale at the Mid-C is inconsistent with GRID projections, as acknowledged by both Staff and PacifiCorp witnesses. Staff's GRID model projection predicts transactions at the Desert Southwest (which includes Palo Verde and the Four Corners), COB and the Mid-C, with transactions at the Mid-C being minimal in context of the total transactions. Finally, ICNU raises the concern that a cost discrepancy that could make direct access uneconomic is posed by Oregon direct access customers paying energy imbalance charges (through their ESSs) calculated based on a four hub methodology, but being credited for energy resources not used based on only the Mid-C.

<u>EPCOR</u>

EPCOR does not significantly weigh in on whether transitional energy resources should be valued based on forward market curves derived from the Mid-C alone or a four-hub average, other than to indicate that PacifiCorp's position regarding calculation of the cost of energy imbalance service at the FERC is inconsistent with its position in this docket on valuation of energy resources. Instead, EPCOR focuses on the proper valuation of transitional transmission resources. EPCOR urges the Commission to approve a transition adjustment that credits customers for transmission related economic benefits that result from direct access.

EPCOR asserts that a transmission credit is appropriate and not a subsidy because in all load scenarios, PacifiCorp's transmission investment will be economic and other customers will be benefited by freed up transmission. EPCOR argues that now and in the future, at all load levels (i.e., in spite of direct access load losses), the Company will either utilize freed up transmission or avoid purchasing additional transmission from BPA. EPCOR identifies statements by PacifiCorp that indicate it will use all transmission rights regardless of load levels. EPCOR also observes that PacifiCorp currently buys transmission on a short-term basis, in addition to its FPT contracts, and argues that these purchases could be avoided as a result of direct access load losses. Moreover, EPCOR observes that PacifiCorp has acknowledged that it is in load resource balance only through 2006 and states that after this date, PacifiCorp will need to acquire additional power and additional transmission to serve load and would avoid these purchases by not planning to serve direct access load.

EPCOR disputes all but one of the reasons offered by PacifiCorp why the Company's transmission rights prevent a transmission credit to direct access customers. In any case, EPCOR finds PacifiCorp's assertions to be irrelevant due to the Company's full utilization of transmission capacity, which renders transmission rights economic and subject to a credit to customers freeing up transmission.

Although EPCOR accepts PacifiCorp's representation that the Company's contract with BPA prevents sale or assignment of transmission rights, EPCOR argues that PacifiCorp can do buy-sell arrangements with ESSs. EPCOR represents that PacifiCorp can purchase power at the Mid-C, transmit the power over FPT transmission from the Mid-C to Portland, Oregon, and then resell the power to ESSs at the Company's Portland-area points of delivery.

DISCUSSION

It is a fact that no eligible PacifiCorp customer has elected to receive direct access service from an ESS. Parties dispute the reasons why customers continue to choose electric energy service from PacifiCorp at cost of service rates, and efforts have been ongoing in this docket to discern whether there are barriers that impede the marketability of direct access. As PacifiCorp's transition adjustment methodology has long been suspected to hinder the economic viability of direct access in the Company's service territory, the formal portion of this docket was opened in order to address this issue.

The formal proceeding has been conducted with a sense of exigency due to our desire to implement modifications to the transition adjustment in time to benefit PacifiCorp's Fall 2004 enrollment window and the one-year Kick-Start program. We agree with Staff and parties, however, that the evidence presented indicates it is appropriate to adopt interim modifications to PacifiCorp's transition adjustment, while continuing to investigate and further refine the transition adjustment methodology for the longer term.

Objectives shifted mid-course during the formal portion of this docket. As a result, the evidence is mixed and addresses proposed modifications to PacifiCorp's existing transition adjustment for both the short and long terms. In approving revisions to PacifiCorp's transition adjustments to be implemented prior to the Company's Fall 2004 enrollment window, that likely will be superceded by future revisions, we focus on facts and issues most pertinent to the transitional interim transition adjustment mechanism and do not address all issues and evidence presented in this proceeding. While we may identify issues that potentially affect the selection of a long-range transition adjustment methodology, we deem the evidence to be insufficient to resolve these issues and decline, at this time, to endorse a particular long-range methodology. We expect the interim transition adjustment mechanism to inform the development of further transition adjustment revisions, however, and approve modifications that are aimed at achieving this goal.

<u>In the Short-Term, the Market-Even Approach More Appropriately Reflects Anticipated Operational Responses Than Other Proposed Approaches</u>

No party disputes that PacifiCorp's utility operations are complex and multidimensional. As demonstrated by GRID modeling, PacifiCorp operates an integrated, multi-state utility that has numerous and geographically diverse energy and transmission resources. Ideally, a transition adjustment will value utility resources impacted by direct access based on actual, appropriate operational responses. We conclude, however, that the evidence presented in this case is insufficient to determine what those responses should be in the long term and how they should be measured. Nevertheless, we deem it both possible and appropriate to move towards a transition adjustment mechanism that is founded on more accurate assumptions about actual operational responses to direct access. A primary basis, therefore, for our evaluation of the proposals to provisionally modify PacifiCorp's current transition adjustment mechanism is each proposal's ability to reflect the Company's expected operational responses to the election of direct access load in the near term. We conclude that the market-even methodology best reflects the multiple operational responses PacifiCorp is likely to take following near term losses of direct access load.

PacifiCorp's current transition adjustment is based on an assumption that the loss of direct access load will cause PacifiCorp to have surplus power that it must transport to a market hub to sell. ICNU and EPCOR urge us to approve transition adjustment modifications that are based on an assumption that the loss of direct access load will cause PacifiCorp to avoid power purchases and the associated transmission costs. Staff proposes, and PacifiCorp supports, a revised transition adjustment that assumes a dual operational response to the loss of direct access load, with an equal mix of wholesale sales and purchases.

Although all of these approaches value energy resources freed up by direct access at a market price (differing only on what that market price should be) minus PacifiCorp's cost of service rate, they fundamentally diverge on what operational responses will occur and, therefore, how to value, or account for, transmission resources impacted by operational responses to direct access loads. PacifiCorp's current transition adjustment subtracts the value of the transmission resources presumed to be used to deliver the energy resources to and from the market transaction points from the market price of the energy resources. This approach is considered a "market-minus" methodology because it results in a transition adjustment valuation that is less than the market price of the energy minus PacifiCorp's cost of service rate. The transition adjustment methodology supported by ICNU and EPCOR would add the value of transmission that would be avoided if a power purchase was not made, to the market valuation of energy not purchased. This approach is considered a "market-plus" methodology because it results in a transition adjustment that is greater than the market price of the energy minus PacifiCorp's cost of service rate. The transition adjustment methodology supported by Staff and PacifiCorp would value only the energy resources based on the assumption that avoided transmission associated with avoided purchases would offset transmission used to execute sales. This approach is considered a "market-even" methodology because it results in a transition adjustment equal to the market price of the energy resources minus PacifiCorp's cost of service (before adding a credit for PacifiCorp's distribution losses). We concur with PacifiCorp that because PacifiCorp's cost of service rate includes state-regulated ancillary services and wheeling and distribution losses, it is necessary to credit these costs. Thus, all of the methodologies are considered to include this credit. Table 1, below, summarizes the methodological approaches to valuing transmission resources impacted by direct access:

Table 1

	Proposed Implementation Time Frame	Methodology[6]	Net Valuation (Before Subtraction of Cost of Service Rate)
Market-minus	Existing method	(Forward market curve – transmission costs) – cost of service rate	Market price “minus” all transmission costs
Market-plus	Short and long terms	(Forward market curve + transmission costs) – cost of service rate	Market price “plus” certain transmission costs
Market-even	Short term only	Forward market curve – cost of service rate	Market price

We recognize that all of the proposed methodologies are conjectural. Moreover, we recognize that the assumptions about PacifiCorp’s operational responses to direct access that underpin each methodology are expected to be inaccurate to some degree. As the GRID model projections introduced by Staff demonstrate, PacifiCorp’s operational response to direct access load losses is expected to be multidimensional, involving more than one or two system responses. We understand, however, that GRID’s modeling of PacifiCorp’s operational responses requires further refinement that cannot be completed in time to implement a GRID-based transition adjustment for PacifiCorp’s Fall 2004 enrollment window.

Although additional facts are necessary to evaluate a GRID-based transition adjustment as an appropriate long-range approach and we decline at this time to endorse this approach on either a short or long-term basis, we believe it worthwhile to work towards development of a transition adjustment mechanism that values resources affected by direct access based on actual, appropriate operational responses. Consequently, we direct PacifiCorp to continue to work with interested parties toward this end in workshops to be scheduled on, or near, the dates of October 4, 2004 and October 22, 2004. PacifiCorp shall file a proposed long-term transition adjustment mechanism no later than November 15, 2004.

We discern objectives, however, that may be achieved more immediately by approving interim modifications to PacifiCorp’s current transition adjustment. These objectives include moving towards a transition adjustment that better approximates actual operational responses to direct access. Of the two options presented by the parties, the market-even methodology best reflects the multiple operational responses PacifiCorp is likely to take following the loss of direct access load during the Company’s Fall 2004 open enrollment window or the one year Kick- Start program. Based upon evidence that PacifiCorp is in resource balance, the mix of operational responses shown in Exhibit

[6] All methodologies would add a credit for state-regulated ancillary services and wheeling and distribution losses.

Staff/102 are realistic for the near future. Consequently, we find that the market-even methodology, which assumes a dual operational response to direct access load departure, reasonably moves towards a transition adjustment mechanism that reflects anticipated operational responses by PacifiCorp. For the purpose of valuing transmission assets, we direct PacifiCorp to revise its transition adjustment to reflect the market-even methodology.

In adopting the market-even approach for the near term, we make two observations. First, the revised transition adjustment will apply to PacifiCorp's Kick-Start program. We approved Schedule 780 implementing the Kick-Start program with the explicit understanding that the tariff would be amended to reflect changes to the transition adjustment methodology. Consequently, we direct PacifiCorp to amend Schedule 780 to apply the transition adjustment modifications approved in this order. As the Kick-Start provides a transmission credit,[7] concerns that undervaluation of transmission assets will impede direct access are alleviated. Consequently, by approving the market-even methodology and having it apply to Kick-Start, we hope to inform future refinements to the transition adjustment by having an opportunity, in the near future, to evaluate the viability of the market-even approach on its own and together with a transmission credit.

Second, we acknowledge the underlying dilemma at the core of the dispute about valuation of transmission resources. Avoiding the acquisition of power rather than disposing of acquired power by market sale results in a higher transition credit valuation as transmission costs to and from the market are not incurred. Supporters of a market-plus approach, therefore, argue that PacifiCorp should anticipate direct access load departure and not plan for it. PacifiCorp counters, however, balances its system on a 24-month rolling basis and plans for load departure only upon actual notice. Operationally, therefore, PacifiCorp is likely to always be in load balance when responding to direct access load departure, making the market-plus approach almost always inapplicable. The problem is further compounded by the nature of PacifiCorp's transmission rights and the dispute about whether PacifiCorp uses transmission capacity freed up by direct access load.

Our desire is to develop a long-range transition adjustment that values resources based not only on PacifiCorp's actual operational responses, but actual operational responses that are based on appropriate planning. We approve the market-even transition adjustment methodology as an interim approach based upon PacifiCorp's current resource position. In the near term, through 2006, PacifiCorp is in resource balance and does not need to purchase additional energy resources. On a going forward basis, however, as PacifiCorp plans to cover anticipated resource deficiencies, a valid question is raised whether PacifiCorp should anticipate direct access load in order to avoid acquisition for departing load. We therefore direct PacifiCorp, together with Staff and parties, to address how GRID model projections change if PacifiCorp's operational assumptions change. We also direct PacifiCorp, Staff and interested parties to investigate how GRID model projections change

[7] Schedule 780 provides that ESSs serving customers under Kick-Start may track all charges paid to BPA to deliver power to consumers and submit this information, on a monthly basis, to Staff and PacifiCorp. After Staff conducts an audit of the statements, PacifiCorp will remit, on a monthly basis, the approved amounts.

based on the characteristics of direct access programs, such as the term of service. For example, how would GRID model operational responses to customer participation in direct access programs for terms longer than one year, such as terms up to 36 months that are available in the Kick-Start Program? Finally, we direct PacifiCorp, Staff and interested parties to continue investigation of PacifiCorp's utilization of transmission rights and the proper valuation of avoided transmission.

The Market-Even Approach Should Reflect the Multiple Hub Effect

Although we approve the market-even approach to valuing transmission resources, we do not approve the market-even mechanism, as proposed by Staff and PacifiCorp, in its entirety. Instead, we approve an alternate approach to valuing energy resources.

Staff and PacifiCorp propose the continued use of the Mid-C forward price curve to value energy resources. ICNU argues that Mid-C pricing should be replaced with an average of the forward prices at four Western trading hubs: Mid-C, COB, Palo Verde and Four Corners. Representing that, despite monthly variations, power is typically cheaper at the Mid-C than other hubs, PacifiCorp argues that the use of a simple four-hub average to set the forward price in the interim transition methodology would overvalue the freed up direct access load and create a windfall for direct access customers at the expense of other customers. By the same logic, however, using the Mid-C forward curve exclusively may undervalue the freed up direct access load.

Preliminary GRID model projections demonstrate energy transactions are likely to occur at multiple hubs in various permutations. We agree with PacifiCorp that a simple four-hub average likely does not represent anticipated market responses to direct access load departure. Although PacifiCorp may engage in transactions across four hubs or more in response to direct access, it is unlikely to do so evenly. We also agree with ICNU, however, that it is inappropriate to assume, in the face of evidence to the contrary, that all market transactions will occur at the Mid-C.

We view the results of the two energy valuation approaches as representing a reasonable pricing range. Rather than choosing to value energy resources at either end of this pricing spectrum, we find it reasonable to recognize the multiple hub effect and value energy resources within this pricing range. To do that, we direct PacifiCorp to implement a transition adjustment that values energy resources freed up by direct access at the sum of the Mid-C forward price curve and an adder of $1.40 per MWh. We find this adder is a reasonable estimate of the additional value likely to be realized by transactions at multiple hubs rather than only the Mid-C. Parties should continue to address how PacifiCorp's transition adjustment can best capture actual market prices when valuing energy resources.

Balancing Account Treatment Should Have Parameters

As part of its original proposal to revise the transition adjustment mechanism, PacifiCorp recommended implementation of a "safety-valve" true-up mechanism to address load losses of 25 MW or more, or market movement during the open enrollment window. PacifiCorp has since clarified that it proposes to apply the true-up mechanism only to cover significant market movement during the open window. PacifiCorp states that it will employ the same approach it currently uses with respect to the difference between the transacted and forward price curve value of the freed up power, but will recover any costs in the balancing account through Schedule 293 from all customers eligible for direct access. Presumably the approach will need to be revised to reflect the market-even approach, however.

Staff agrees with PacifiCorp's proposal to the extent that there is "significant" market movement during the open enrollment window. Neither PacifiCorp nor Staff defined what would constitute significant market movement, however. In general, parties expressed concern about the need to have parameters on PacifiCorp's discretion to true-up between the transacted and forward price curve value of the freed up power.

We agree that PacifiCorp should have parameters on application of a balancing account mechanism. Given the lack of evidence presented in this docket about what those parameters should be, we look to parameters on the ability of PGE to true-up between the transacted and forward price curve value of freed up power. PGE's Schedule 125, implementing its transition adjustment mechanism, provides for a true-up when the deviation between actual market prices experienced in acquiring or disposing of power and market prices used to set the transition adjustment results in costs that are greater than $250,000. We apply this standard to PacifiCorp and otherwise adopt PacifiCorp's last proposed balancing account treatment. To the extent that future versions of a transition adjustment for PacifiCorp include balancing account treatment, parties should address what proper parameters are.

ORDER

IT IS ORDERED that:

1. PacifiCorp shall file revised rate schedules consistent with this order within ten days of issuance of this order.

2. PacifiCorp shall hold workshops on, or near, the dates of October 4, 2004 and October 22, 2004, to develop a long-range transition adjustment mechanism.

3. PacifiCorp shall file a proposed long-range transition adjustment mechanism no later than November 15, 2004.

Made, entered, and effective ______________________________.

____
Lee Beyer
Chairman

____
John Savage
Commissioner

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Ray Baum
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.