BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1020

In the Matter of PORTFOLIO OPTIONS COMMITTEE Approval of the Portfolio Option Program Design for Renewable Resource Programs for PORTLAND GENERAL ELECTRIC COMPANY and PACIFICORP, dba PACIFIC POWER, for the January 2010 to December 2012 contract term.	ORDER

DISPOSITION: PORTFOLIO COMMITTEE RECOMMENDATIONS APPROVED IN PART; DENIED IN PART

The Portfolio Options Committee (Committee) recommends portfolio options to the Public Utility Commission of Oregon (Commission) in accordance with ORS 757.603(2) and OAR 860-038-0220. At the Commission's November 3, 2009, Public Meeting, the Committee made several recommendations regarding portfolio options. Detailed analyses of the recommendations are contained in the Commission Staff Reports, presented on behalf of the Committee, which are attached as Appendix A (Staff Report regarding Portland General Electric) and Appendix B (Staff Report, regarding PacifiCorp, dba Pacific Power), and incorporated by reference.

The Commission partially approved Staff's first recommendations (in Appendices A and B). Staff recommends the Commission change its current policy requiring sourcing of 100 percent of renewable energy certificates (RECs) from the area covered by the Western Electricity Coordinating Council (WECC), to enable Portland General Electric (PGE) and PacifiCorp, dba Pacific Power (Pacific Power) to support their voluntary renewable programs through sourcing of RECs in U.S. regions outside of the WECC, as needed, to continue offering their voluntary renewable products at or close to the current price point. The Commission approved the Portfolio Options Committee recommendations of October 12, 2009, with paragraph 3, modified on November 3, 2009, to read:

> The Portfolio Options Committee recommends that Portland General Electric and PacifiCorp be allowed to meet their voluntary renewable portfolio options requirements with RECs generated from the WECC, to the maximum extent possible, and utilize non-WECC, or national, RECs only as necessary to maintain the renewable portfolio option prices similar to current levels.
>
> At no time will national RECs constitute a majority, within a three-year rolling average period, of RECs in the usage products. If there is a need to exceed a majority within a three-year rolling average period, the utilities will bring that issue back to the POC.
>
> The block products offered within the portfolio will remain based on WREGIS RECs and national RECs will be utilized only in the usage-based products.
>
> The Portfolio Options Committee also recommends that all RECs must continue to meet the requirements for Green-E certification and be retired in the tracking system of the region where they are generated, until WREGIS is able to accept transfers from other regions. The utilities will also disclose sourcing options in customer information in an ongoing manner as described in materials provided by the utilities (attached to this recommendation).

Staff recommendations 2 and 3 of Appendices A and B were not approved by the Commission.

ORDER

IT IS ORDERED that:

1. Portland General Electric Company and Pacific Power may support their voluntary renewable programs through sourcing of renewable energy certificates in U.S. regions outside of the Western Electricity Coordinating Council, as needed, to continue offering their voluntary renewable products at, or close to, the current price point. Portland General Electric Company and Pacific Power will use the renewable energy certificates generated from the Western Electricity Coordinating Council to the maximum extent possible.

2. At no time will national renewable energy certificates constitute a majority, within a three-year rolling average period, of

renewable energy certificates in the usage products. If there is a need to exceed a majority within a three-year rolling average period, the utilities will bring that issue back to the Portfolio Options Committee.

3. The block products offered within the portfolio will remain based on the Western Renewable Energy Generation Information System renewable energy certificates.

4. National renewable energy certificates will be utilized only in the usage-based products.

5. All renewable energy certificates must continue to meet the requirements for Green-E certification and be retired in the tracking system of the region where they are generated, until the Western Renewable Energy Generation Information System is able to accept transfers from other regions.

6. Portland General Electric Company and Pacific Power will disclose sourcing options in customer information in an ongoing manner as described in materials provided by the utilities (attached to Appendices A and B, incorporated by reference).

Made, entered, and effective NOV 1 3 2009.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 3, 2009

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **January 1, 2010**

DATE: October 29, 2009

TO: Public Utility Commission

FROM: Theresa Gibney TG

LS EB MG

THROUGH: Lee Sparling, Ed Busch and Maury Galbraith

SUBJECT: PORTFOLIO OPTIONS COMMITTEE: (Docket No. UM 1020) Approval of the Portfolio Option Program Design for Renewable Resource Programs for Portland General Electric for the January 2010 to December 2012 contract term.

SUMMARY RECOMMENDATIONS:

1. Staff recommends the Commission change its current policy requiring sourcing of 100% of renewable energy certificates[1] (RECs) from the service area served by the Western Electricity Coordinating Council (WECC)[2],[3] to enable Portland General Electric (PGE, the Company) to support its voluntary renewable programs through sourcing of RECs in U.S. regions outside of the WECC, as needed, to continue offering its voluntary renewable products at or close to the current price point.

2. Staff recommends the Commission, as a condition of approval for this policy change, require PGE to add product "naming modifiers" to programs sourced with RECs from U.S. regions outside of the WECC and to continue to offer a 100% WECC sourced option, as a "value and price adder" for its voluntary renewable products.

3. Staff recommends the Commission require PGE to file tariffs for the base program and the "value and price adder" at the time that it needs to begin sourcing RECs outside of the WECC and to design the program and its roll-out in the interim.

[1]A renewable energy certificate is a market instrument created to house the value of renewable energy that is not captured by the value of the power flowing into the grid. This allows customers and policy makers to use this market instrument to reference the value of attributes of power that are not currently internalized by the electricity markets.
[2] The Western Electricity Coordinating Council is a coordinating body that operates the electrical grid connecting 14 Western States and smaller portions of Canada and Mexico. This electrical grid ("the Western grid") is physically separated from other electric grids in the United States.
[3] The Western Renewable Energy Generation Information System (WREGIS) is the REC tracking system that serves all renewable generators that operate within WECC. Today, PGE programs must source WREGIS registered RECs.

Background:

On July 29, 2009, on behalf of the Portfolio Options Committee (the POC), Staff recommended the Commission approve the release of PGE's Request for Proposals (RFPs) for Program Services[4] for its 2010-2012 Voluntary Renewable Usage program.

Staff notified the Commission that these RFPs called for bids that included sourcing of RECs from outside of the WECC, so as to explore strategies to achieve product price stability during the contract period.[5] Staff posited that, if this sourcing proved a viable solution to product price stability, the bids would lead to a request that the Commission change its existing sourcing policy. (The existing policy requires that RECs sourced for both PGE's Fixed and Renewable Usage products be WREGIS registered RECs, based on power generated in the WECC.) Staff proposed that the Commission defer policy decisions until its November 3, 2009 Public meeting.

The Commission subsequently approved the release of these RFPs, contingent on the exploration of options that would not require a change in Commission policy.[6]

This requirement led to a three month investigation, described later in this memo, carried out in parallel with the bidding process. The only option that emerged from this effort was a strategy of variable blending of nationally sourced and WECC sourced RECs to manage the uncertainty (anticipated cost increases) in the WECC REC market.

The investigation ultimately resulted in a commitment by POC leadership to further explore "steel in the ground"[7] or other non-REC based alternatives before the end of 2009. RNP support of the current Committee motion is partially predicated on this commitment to evaluate and work towards deploying a non-REC based product for the next contract cycle.

Portfolio Options Committee Recommendation

At the Portfolio Options Committee meeting on October 12, 2009, the Committee voted 9-2 to support the following recommendation:

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[4] Program services include product marketing and REC sourcing services
[5] REC prices for RECs sourced in the WECC are expected to escalate during the contract period, if California allows unbundled REC's from the WECC to be used to comply with the CA Renewable Portfolio Standard (RPS).
[6] These options included explorations of "steel in the ground", stable rate options, and long term fixed price contracts requested by RNP in their public statements at the July 29, 2009 meeting, and included in conversations between staff and the Companies as part of the agreement to write the Staff memo, approving release of the RFPs.
[7] "Steel in the ground" refers to customer purchase of bundled energy instead of REC based representations of the unbundled attributes of renewable energy.

"The Portfolio Option Committee recommends that Portland General Electric and PacifiCorp be allowed to meet their voluntary renewable portfolio options requirements with RECs generated from the WECC, to the maximum extent possible, and utilize non-WECC, or national, RECs only as necessary to maintain the renewable portfolio option prices similar to current levels.

At no time will national RECs constitute a majority, within a three-year rolling average period, of RECs in the usage products. If there is a need to exceed a majority within a three-year rolling average period, the utilities will bring that issue back to the POC.

The preference of the Committee is that the block products offered within the portfolio remain based on WREGIS RECs and that national RECs be utilized only in the usage-based products.

The Portfolio Options Committee also recommends that all RECs must continue to meet the requirements for Green-E certification and be retired in the tracking system of the region where they are generated[8], until WREGIS is able to accept transfers from other regions. The utilities will also disclose sourcing options in customer information in an ongoing manner as described in materials provided by the utilities (attached to this recommendation)."[9]

Staff and ODOE were the two dissenting votes. Both agree that the recommendations contained in paragraphs one and four of the Committee proposal are <u>necessary</u> to maintain voluntary renewable programs at current strength and credibility and to enable these programs to grow.

However, Staff and ODOE voted against the proposal because it is <u>not sufficient</u> to meet the joint objectives of achieving value for the Company, value/choice for Customers, an enduring Commission policy, and full disclosure to customers.

Staff argues that the recommendations contained in paragraphs two and three are not concrete enough to serve these joint objectives. In addition, disclosure of sourcing is insufficient to communicate the shift in value proposition that is taking place[10] given that the option to purchase local renewable energy has been available to customers since 2002 and these programs have been strongly marketed as OR/WA or regional energy from their inception.

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[8] In addition to WREGIS, several regional tracking systems are in place (as well as a North American system.) The regional systems are: PJM-GATS; M-RETS; NEPOOL GIS; and ERCOT.

[9] See Attachment B for PGE plans.

[10] A shift of value proposition is taking place for customers who value local sourcing..

Staff Alternative

Staff proposes a three-part alternative to the POC recommendation:

1) The Commission broaden its policy to allow PGE to source RECs in U.S. markets outside the WECC for its voluntary renewables products, within the conditions outlined in paragraphs one and four of the Portfolio Options Committee recommendation, and

2) The Commission require PGE to continue offering new and existing customers the option to purchase 100% of their usage as "local renewable energy"[11], as a condition of broadening its REC sourcing policy, and

3) The Commission require PGE to offer this "local renewable energy" option as a "value and price adder" to its voluntary renewable products and that the products that will be based on RECs sourced in areas outside the WECC (other regional markets) be identified as PGE's "National" products.

A "word picture" of the staff alternative (as contrasted against existing PGE products) is given in Attachment A.

The primary objective of this recommendation is to clearly communicate to customers that the proposed 2010-12 program has a different value proposition[12] than the previously advertised program.[13]

A second objective of this recommendation is to enable customers to retain their existing choice to source 100% of their electricity usage "locally" by purchasing RECs representing energy generated in the WECC. A third objective is to make this choice simple enough by structuring the "adder" in a manner similar to PGE's Habitat option. Finally, Staff's objective is that this program be sustainable, over the 3 year contract period, in the face of the uncertainty in REC sourcing facing PGE's third party partners.

ODOE agrees with the elements of, and arguments in support of, the Staff alternative.

[11] As represented by the purchase of 100% WREGIS registered, WECC-generation based RECs
[12] Again, a REC is a market instrument created to house the value of renewable energy that is not captured by the value of the power flowing into the grid. This allows customers and policy makers to place a value on the attributes of power that are not currently internalized by markets. If the attribute of renewable energy that a customer values (as represented by a REC) is predicated on the assumption that the energy enters the same grid that serves the customer, it matters where that renewable energy is generated. If the attribute of renewable energy that a customer values (as represented by a REC) is not predicated on the assumption that the energy enters the same grid that serves the customer, it does not matter where the renewable energy is generated.
[13] For customers who do care about local sourcing, a nationally sourced product has a different value proposition.

DISCUSSION: Support of POC recommendation for blended REC sourcing

Portfolio Options Committee (POC, the Committee) members unanimously agree that the contract period of January 2010 through December 2012 cannot be navigated in a "business as usual" fashion.

Anticipated REC price increases

Although stabilizing changes have occurred in the WECC REC markets since 2008[14], unwelcome changes are dominant. In the WECC REC market the price of RECs has more than doubled[15] and the current market is illiquid.

This unwelcome change in REC prices has been attributed mostly to market anticipation of California treatment of unbundled RECs. By all reports, the market is "on hold" awaiting the outcome of a pending change to the California Renewables Portfolio Standard (RPS) that is likely to allow unbundled RECs to be more widely used to meet the California RPS requirements.

The likely REC cost escalation, if California acts as anticipated, will result in tariff increases that would be unacceptable to the majority of customers of voluntary renewable power purchase programs. PGE customer survey data indicates that 80-90% of current customers would not participate in voluntary renewable programs if prices escalate to levels anticipated.

Blended REC sourcing: National & WECC – the only viable, short-term solution

In Fall 2008, PGE requested and received Commission approval to increase the pricing for voluntary renewable product options for the first time in program history.[16]
In response, a small group from the POC launched an investigation into available options for cost control, including in that investigation options posed by RNP in its July 29 letter to the Commission. In parallel, the group awaited the results of "creative bids" from the third party program services bids solicited through PGE's RFP process.

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[14] Stabilizing changes: As of January 2009, 100% of RECs supplied for the Companies' voluntary Renewable Power programs must be registered and retired in WREGIS. This registration and retirement was originally required to begin on January 1, 2008 (Commission Order on January 10, 2006). In Order 08-278, the Commission adopted the Portfolio Option Committee recommendation that this requirement be waived until January 1, 2009, when the majority of the REC market was predicted to be registered through WREGIS.

[15] This is largely due to many states adopting renewable portfolio standards. In addition, prices for WREGIS registered RECs are higher than for WECC registered RECs.

[16] PGE Advice No 08-14. The pricing for these options had not changed since 2002. The tariffs were originally structured at a high enough level to allow for fluctuations in prices of RECs. Throughout the program, surplus dollars collected through the tariffs have been held in a fund to cover future price increases in RECs and to (potentially) fund new renewable energy projects.

By mid-September, the group concluded that that there were no short-term "steel in the ground" or non-REC based alternatives to current REC-based voluntary renewables programs[17] and that uncertainty in the REC market made it unlikely that long-term, fixed price sourcing alternatives could be secured. Responses to PGE bids did not result in other options beyond variable blending[18] of national and WECC sourced RECs.

The Committee concludes that asking the Commission to change its policy to include national REC sourcing is the only viable short-term cost containment alternative available for the Company's voluntary renewable programs for the contract period.

Customer acceptance of REC sourcing

PGE has demonstrated[19] that their customers would rather embrace a change to "acquisition of renewable energy from national sources" [20] than move to the high(er) price point required to continue acquiring this energy from only WECC sources.[21] PGE's position is also supported by recent PacifiCorp data (for PacifiCorp customers) shared with the Portfolio Options Committee on 10/12/2009. [22]

PacifiCorp also found that customers surveyed are more concerned about price than location of the generation. In short, 83% indicated that they would prefer a product that includes national RECs in order to keep the price low. Only 13% percent of respondents identified a strong preference for regional resources.[23] Only 8% indicated that they would leave the program if it included energy resources outside of the region.

[17] The Company strongly asserted, and long-term Committee members agreed, that it would take a long time to work through: a) regulatory barriers to utility carve-outs of existing renewables and b) Company arguments that it would be inappropriate for the Company to take on the risk of serving loads of up to 80 aMW with "steel in the ground" programs without the potential for financial reward, as well. The Company does not earn a return on voluntary renewable programs.

[18] Blending provides price stability by combining higher price and lower price RECs into one average price that is acceptable to customers.

[19] In April 2009, PGE completed research on customer views of the importance of sourcing location for RECs and program pricing as it relates to sourcing of RECs. This survey reached 200 current customers and 450 prospective customers.

[20] PGE survey data, from 2007, indicates that 70% of customers are interested in participating in the program to secure cleaner electricity/less pollution/for a better environment/renewable energy. Only 9% of customers were motivated by a more reliable source of energy, a more domestic source of energy or preventing global warming. PGE did not provide a breakdown of the 70% category. PGE will provide this to staff by 10/28/2009.

[21] Twenty six percent (26%) of customers would pay $10 more/month; 8% of customers would pay $15 more/month and only 2% of customers would pay $20/month.

[22] This survey was carried out in September-October 2009. PacifiCorp sent postcards to 5000 households inviting them to take an on-line survey. PacifiCorp received 483 total responses, with 476 responses to the key questions given in the body of this memo. Current data to support PGE customer perceptions of geographic location of sources of renewable energy does not exist. The Committee is inclined to accept the PacifiCorp data as representing PGE customers.

[23] This response was independent (without consideration) of price.

In addition, PacifiCorp presented data from 476 survey respondents showing the average customer perception of the current geographic location of sources of renewable energy is:

35% Oregon only
44% outside Oregon but within the WECC
21% outside the WECC but within the US

The Committee concludes the average customer already believes that not all renewable energy is generation from within the WECC, although they expect that most of it is.

Continued emphasis on REC Registration and Certification

Over Portfolio Options Committee history, Committee action has lead to an increasing emphasis on "new resources" and on tracking and certification of RECs.

In 2007, 100% of RECs for voluntary renewable products were required to come from "new generation[24]", strengthening the credibility of programs as contributing to more renewable generation than would occur without the programs.

In 2002, PGE committed to sourcing RECs that are "Green-e" certifiable[25].
As of January 2009, Commission decision requires that 100% of RECs supplied for the Companies' voluntary renewable energy programs be registered and retired in WREGIS.[26] These commitments were undertaken to strengthen the credibility of voluntary renewable energy programs.

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[24] OAR 860-038-0220(4) directs the Portfolio Options Committee to recommend the resource content of each renewable energy resource product and requires that at least one renewable energy resource product contain "significant new" resources. In Order 03-208, the Commission approved the Portfolio Options Committee recommendation that a "new resource" be defined as one that meets the requirements of Oregon's Electric Industry Restructuring Law (SB1149), codified as ORS 757.600(21). SB1149 requires that a "new" renewable resource is generated by a facility that first started operation after July 23, 1999. Order 03-208 also required that 100% of renewable content in Block Options be from new resources and established a preference for REC bids from generation facilities located in the WECC. In Order 06-350, the Commission adopted the Portfolio Option Committee recommendation that 100% of the content of RECs be from "new" resources, as of January 1, 2007

[25] This is different than PacifiCorp's REC purchase commitment. PacifiCorp commits to Green-e certification, which means that they are annually audited by "Green-e" as to compliance with Green-e criteria in REC sourcing and in marketing of the attributes of this unbundled power. PGE has chosen not to become Green-e certified because of the considerable expense of this certification and the lack of customer recognition of the Green-e certification for retail renewable energy products. PGE does not communicate this Green-e certification in any customer communication.

[26] The WREGIS system provides a robust method to prevent multiple claims for specific electricity generation. This process and the current renewable resource options provide the best assurance available that subscribers' energy usage is matched with "new" renewable energy generation, that the generation facility is located in the U.S. regions of the WECC, and that energy generation is not being double counted. This registration was originally required to begin on January 1, 2008 (Commission Order on January 10, 2006). In Order 08-278, the Commission adopted the Portfolio Option Committee recommendation that this requirement be waived until January 1, 2009, when the majority of the REC market was predicted to be registered through WREGIS.

Committee members continue to see the value of sourcing of RECs from energy generated in the WECC and that are registered in WREGIS, as evidenced by conversations in the Committee meetings and codified in the Committee motion.

Arguments in Support of Staff Alternative

The Staff alternative builds on the foundation of the Committee recommendation and addresses three concerns, not addressed by the POC recommendation:

1) Customer choice,
2) Sustaining the program over the three year contract period, and
3) Threats to program credibility

Local Sourcing: Customer Choice

As mentioned above, PGE demonstrates[27] that a large majority of customers are comfortable with national or blended sourcing of RECs.

The Company proposes to offer a voluntary renewable usage product to serve this majority of customers and proposes to "not serve" the minority of customers who plan to leave the program if a portion of RECs are sourced nationally.

This is a standard approach to shaping product offerings in companies participating in competitive markets. In competitive markets, companies choose to address the portion of the market that will be most cost effectively addressed by their product offering. In return, companies take the risk that the portion of the market that they choose not to address will provide a foothold for competitors to gain entry into the company market.

In a monopoly market, companies do not face this risk.

PacifiCorp data shows that somewhere between 5 and 15% of customers feel strongly about 100% local sourcing of renewable energy. If PGE stops providing this product, the 5-15% of customers[28] that feel strongly about 100% local sourcing of renewable energy will have no option in the PGE monopoly electricity market.

No other options for giving this customer segment access to local renewable energy, were discussed during Committee or small group meetings. [29],[30]

[27] PGE's arguments are supported by customer research data, as detailed earlier in this memo.
[28] The Committee has interpreted PacifiCorp data as largely representing PGE customers, as well.
[29] In response to a courtesy copy of this memo, PGE asserts and RNP confirms that customers can buy RECs directly from third party marketing organizations. These options should be considered by the Commission in making

Staff argues that these customers should be given a choice to continue purchasing, from PGE, the product that is most consistent with existing Commission policy and that has been the available option over program history.

Sustainability of Programs over the three year contract period

Staff argues that the POC's recommendation of a soft cap (a "rolling three year window of REC purchases that will not exceed 50% without consulting the Committee"), is merely postponing a tough call.

Both PGE and PacifiCorp could not, in good faith, allow the Committee recommendation to include a hard annual cap on the percent of non-WECC (national) RECs to be included as part of the voluntary renewable usage sourcing blend.

The Companies and their third party program services firms are faced with such market uncertainty that they can promise almost nothing, except that they will come back to the Portfolio Options Committee, if the REC market requires that they exceed the 50% limit of national RECs, measured on a rolling three year average basis[31]. From Company resistance to Committee proposals to place a hard cap on the percent of non-WECC sourced RECs in the variable blend, Staff concludes that the POC recommendation is likely to need to be revisited during the contract term.

If the key objective is to maintain enrollment and product prices at close to current levels[32], only a program that allows as much national REC sourcing as is required to do so will be sustainable over the 3 year contract period.

Threats to Program Credibility

Staff is most concerned that voluntary renewable program credibility is at risk unless there is clear communication that a sourcing shift is occurring.

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a decision as to whether or not these customers can be served in this manner or whether customers prefer to be served by their electric company. Staff would be open to proposals that the Companies advertise this option for customers in parallel with their product offering, but this has not been offered nor were these alternatives to serve customers discussed in small group or Committee forums.

[30] The Companies have also not made a commitment to offer the Block (or Fixed) products with 100% WECC RECs. Although this is stated as a preference in the POC recommendation, there was a only single comment at the end of the meeting about unintended consequences of this idea, should it be implemented.

[31] Without a product name change to signal national RECs in the mix, the 50% limit, as measured, is problematic. The condition that the 50% limit is measured as a three year rolling average could allow for REC purchases to be 100% WREGIS in 2010, 50% WREGIS in 2011, then 5% WREGIS in 2012 without a substantive change in the marketing message. This could pose a threat to program credibility in 2012. Without a change in naming, it is not clear that an existing or prospective customer in 2012 will easily understand that the vast majority of their financial contribution may be to projects east of the Rocky Mountains.

[32] One driver of the PGE programs is growth; third party marketing is compensated only for growth beyond baseline.

This is most important to the 5-15% of customers that care deeply about local sourcing and to potential new customers influenced by "local renewable energy" program marketing messages over the last seven years.

The Companies argue that expanding sourcing beyond the U.S. regions of the WECC is consistent with the direction of past changes in the programs, which have included the shift away from Oregon/Washington generation and specific source mixes.

Staff and ODOE disagree with the implication that the migration of eligible resources over time from Oregon-Washington to WECC based REC sourcing to sourcing of RECs outside the WECC is a natural progression, with limited risk to program credibility.

The Company/Committee argument has two flaws. First, it pre-supposes that customers who do care about local sourcing know that the shifts from "steel in the ground" delivery of bundled energy[33] to an OR/WA REC based product to a WECC REC based product have occurred.[34] Second, the argument supposes that educated customers[35] will feel the same way about a change in sourcing that is unlikely to physically impact "power in the local grid" as they might about changes in sourcing that still enable their purchases to impact generation dispatch decisions for "the power in their local grid".[36]

All agree that only a small minority of customers is likely to be knowledgeable about the fact that power does not commonly flow between grids across the United States. Staff agrees that the Company's communication plans are comprehensive[37] and believes that only a fraction of those who care passionately about local sourcing are likely to "find out" that sourcing shifts have occurred. Admittedly, if all 8% of those who care about local sourcing were to drop from the rolls, PGE's program will still have far more participants than if it loses the 80-90% of participants who have indicated that they would not sustain higher prices.

However, comprehensive compliance with disclosure requirements remains insufficient. Staff argues for marketing communications that are targeted to allow customers who do care about local sourcing to make the decision as to whether they are willing to pay for it

[33] PacifiCorp's original Block program was a "steel in the ground" option that was later converted to a REC based program.
[34] The assumption is that customers know the shift from Oregon-Washington energy to WECC energy has been made because the Company has documented and "pushed" this information to customers. However, no Committee member has data to support (or refute) that local-sourcing-passionate customers know that the sourcing shift from Oregon-Washington to the WECC has occurred. PacifiCorp does have data that indicates that 8% of customers will leave the program if they learn that sourcing will move nationwide, without another alternative for them.
[35] Educated customers = those who know that the grids are not connected
[36] New renewable resources installations in the WECC can impact the dispatch of electrical production in the WECC.
[37] See Attachment B.

and to make it unlikely that existing customers will miss the fact that a sourcing shift has occurred. What is required is a marketing plan (intention to reach and penetrate), rather than a communications plan (disclosure compliance).

Staff argues this on behalf of voluntary renewables program credibility.

Those who will care that a sourcing shift has occurred are likely to be thought leaders who will carry this issue to the broader community of customers. This must be so, otherwise many Portfolio Options Committee recommendations have no logical audience[38].

Staff argues that "knowledgeable thought leaders" are those that the Portfolio Options Committee has targeted with its historic moves to require more "new" generation and with its moves to Green-e criteria and WREGIS registration.

If the majority of customers do not know (and do not care)[39] about the details of REC purchases versus the actual purchase of "steel in the ground" delivery of renewable energy; if the majority of customers are just as happy with sourcing of RECs nationally as they are with sourcing of RECs in the WECC, then they most certainly do not understand or yet care about the details of percent of new generation and tracking, registering and retirement of RECs in WREGIS or other regional registration systems.

That these things do matter, however, is underscored by Committee action over the history of the Portfolio Options Committee and by continuing Committee interest in including these requirements in the current Committee motion.

Further, voluntary renewables program marketing messages have been heavily laced with references to the local and Northwest regional impact of voluntary renewable programs,[40] from their inception in 2002 until the present. Intentional marketing efforts such as these take a long time to take hold; efforts to change messages in the minds of customers take an equally long time to take hold. Staff does not agree that changing communications materials will be sufficient to accomplish the objective of ensuring that a shift from local to national sourcing is well known.

[38] Obviously, these Portfolio Options Committee recommendations are also addressing Commission policy and Commission standards of transparency and assurance of disclosure.
[39] PGE asserts that customer research carried out in 2007, showing that customers do not know the name of the product that they are buying from PGE indicates that customers do not care about the intricacies of what they are buying and, specifically, that they do not care to know about REC sourcing.
[40] An equally valid interpretation of PacifiCorp survey data showing that customers believe that ONLY 21% of renewable energy is supplied by national resources, is that marketing of renewable energy as "being local" has been effective.

In short, Staff argues that it is as important to program credibility to be certain that customers know the value proposition of what they are buying as it is for resources to be new resources, for tracking systems to solidly verify that resources are not being double counted, and for customers to know that some portion of their voluntary renewable program payments supports development of renewables in the Northwest.

The 5-15% of customers who indicate that they will leave the program if RECs are sourced nationally are declaring that there is a different value proposition (<u>to them</u>) for a product based on nationally sourced RECs than there is for locally sourced RECs.

Staff and ODOE recommend that the best way to deal with this threat to credibility is to communicate the contrasting alternatives.

Offering a clearly separated "local sourcing option" adder will allow existing customers who care about local sourcing to know that they need to make a change if they want to continue buying the product they might believe they are already buying. A new customer who is asked "do you want to buy the partially nationally sourced product for $10/month or the locally sourced product that fully impacts the resource mix on the Western grid for $20/month?" clearly knows which product is not 100% locally sourced.

<u>Timing of Change</u>

It will take time for PGE to make the changes required to "add an option" to the new majority program. Further, it will take time for the uncertainty in the REC market to solidify into a concrete need to purchase RECs on the national market.

Program rules (built into PGE RFPs and Commission practice) allow that RECs need to be purchased by March 2011, for the 2010 programs. These rules provide PGE sufficient time to design a program that would meet the communication clarity benefits described by the staff alternative and time for third party marketers to "trigger" this new program IF the expected need to source with national RECs emerges.

Staff recommends that PGE file Schedule 7 and Schedule 32 Tariffs that show a Voluntary Renewable Usage Option and a "value and price adder" for local sourcing of RECs when the need to source national RECs emerges. As the programs are more fully designed, PGE can modify this tariff with the appropriate pricing.

PGE has clearly stated that it does not support the Staff alternative. The Company argues that its responsibilities to administer and market the renewable portfolio options programs require that any new options be evaluated with focused market research prior to launch to test the acceptance of the offer.

Further, the Company believes that Staff's alternative creates different classes of RECs (WECC, non-WECC, local) and that adding more customer decision points will increase program complexity and will divert attention away from the purpose of the renewable portfolio options.

Summary

Staff recognizes the virtues of the POC recommendation and acknowledges PGE's concerns, but argues that more effort needs to be made to provide an alternative that enables existing Commission policy to endure, that upholds Commission standards of disclosure, and that provides a local option to PGE customers.

PROPOSED COMMISSION MOTION:

1. The current policy requiring 100% sourcing of WREGIS RECs be changed to allow Portland General Electric to support its voluntary renewable programs through sourcing of RECs in US regions outside the WECC, as needed, to continue offering its voluntary renewable products at or close to the current price point.

2. PGE be required to add naming qualifiers to products delivered with RECs sourced outside the WECC and to continue to offer customers an option to purchase a 100% WECC based product, as a "value and price adder" for its base products, as a condition of approval for this policy change.

3. PGE be required to file Schedule 7 and Schedule 32 tariffs for its voluntary renewable usage programs program with a "value and price adder" at the time that it needs to begin sourcing RECs outside of the WECC and that PGE be required to design the program and prepare for its roll-out in the interim.

Attachment A. The table, below, is a snapshot of product names and marketing slogans for PGE's three existing voluntary renewable options.

PGE [41]	
Green Source	"100 percent of your monthly usage is offset with renewable resources"
Clean Wind	"buy small units of wind energy" (200 kWh/unit)
Current Optional Adder (to either of above)	
Habitat Support	AND "restoration of local fish habitat"

For illustration purposes, Staff provides a snapshot of product names and marketing slogans, that might exist under Staff's alternative:

PGE (base alternative, purchased by the majority of customers)	
Green Source-National [42]	"100 percent of your monthly usage is offset with renewable resources in the Continental US"
Clean Wind [43]– National	"buy small units of wind energy" (200 kWh/unit) from across the nation
Optional Adder (to either of above)	
Habitat Support	AND "restoration of local fish habitat"
Western Grid [44] option	AND "100 percent of your monthly usage is offset with renewable resources in the Western Grid"

A customer would enroll in either the Green Source or the Clean Wind program, and choose either the Habitat Support option, the Western Grid Option, or both.

[41] Per http://greenpoweroregon.com/your-options/overview.aspx (October 22, 2009). These PGE options include a Fixed Renewable product (called Clean Wind) and a Renewable Usage product (called Green Source). Both of PGE's renewable products may be purchased with a Habitat "adder". This "value and price adder" enables customers to make a fixed monthly contribution to restoring salmon habitat.

[42] Naming conventions similar to the ones proposed in the table, above, were offered by several members (also for illustrative purposes), during the Portfolio Options Committee decision process. A naming convention should be designed by PGE/third party marketers to communicate that sourcing is allowed from regions throughout the US, subject to other requirements as to facility age, resource type, etc.

[43] Although the POC recommendation includes a stated preference that the block (fixed, Clean Wind) product offered in the portfolio remain based on RECs sourced in the WECC, the Companies have not committed to do so.

[44] A naming convention should be designed by PGE/third party marketers to communicate that allowed sources are from U.S. regions of the WECC subject to other requirements as to facility age, resource type, etc.

Attachment B. PGE Tactics for informing renewable customers and prospects of the REC sources used for our voluntary programs

If market conditions require PGE to obtain RECs outside the WECC in order to maintain price stability for renewable customers, PGE will update and revise customer communications as given below.

Web sites

Update the current pages on PortlandGeneral.com/Renewable where we have content that says "Where does the power come from?" URLs are http://www.portlandgeneral.com/residential/renewable_energy/green_source.aspx and http://www.portlandgeneral.com/residential/renewable_energy/clean_wind.aspx

Create a page on GreenPowerOregon.com, in the "Your Options" section, that replicates the sourcing information found on Pacific Power's Web site here: http://www.pacificpower.net/Article/Article88745.html

Brochures

Update the "Where does PGE get the renewable power" section of the customer brochures.

Revise the disclaimer that says the power you pay for will be replaced into the Western system to reflect actual sourcing – replacing the power into the North American system.

Customer Service Training

Update training curriculum for customer service reps to reflect the sourcing of RECs

Customer Welcome Letters

Revise the disclaimer that says the power you pay for will be replaced into the Western system to reflect actual sourcing – replacing the power into the North American system.

All-PGE Customer "Welcome Packet" for New Connects

In the renewable power section, revise the disclaimer that says the power you pay for will be replaced into the Western system to reflect actual sourcing – replacing the power into the North American system.

ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 3, 2009

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **January 1, 2010**

DATE: October 29, 2009

TO: Public Utility Commission

FROM: Theresa Gibney TG

LS EB MAG

THROUGH: Lee Sparling, Ed Busch and Maury Galbraith

SUBJECT: PORTFOLIO OPTIONS COMMITTEE: (Docket No. UM 1020) Approval of the Portfolio Option Program Design for Renewable Resource Programs for PacifiCorp for the January 2010 to December 2012 contract term.

SUMMARY RECOMMENDATIONS:

1. Staff recommends the Commission change its current policy requiring sourcing of 100% of renewable energy certificates[1] (RECs) from the service area served by the Western Electricity Coordinating Council (WECC)[2],[3] to enable PacifiCorp (PAC, the Company) to support its voluntary renewable programs through sourcing of RECs in U.S. regions outside of the WECC, as needed, to continue offering its voluntary renewable products at or close to the current price point.

2. Staff recommends the Commission, as a condition of approval for this policy change, require PAC to add product "naming modifiers" to programs sourced with RECs from U.S. regions outside of the WECC and to continue to offer a 100% WECC sourced option, as a "value and price adder" for its voluntary renewable products.

3. Staff recommends the Commission require PAC to file tariffs for the base program and the "value and price adder" at the time that it needs to begin sourcing RECs outside of the WECC and to design the program and its roll-out in the interim.

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[1]A renewable energy certificate is a market instrument created to house the value of renewable energy that is not captured by the value of the power flowing into the grid. This allows customers and policy makers to use this market instrument to reference the value of attributes of power that are not currently internalized by the electricity markets.
[2] The Western Electricity Coordinating Council is a coordinating body that operates the electrical grid connecting 14 Western States and smaller portions of Canada and Mexico. This electrical grid ("the Western grid") is physically separated from other electric grids in the United States. Only small amounts of power can flow between grids.
[3] The Western Renewable Energy Generation Information System (WREGIS) is the REC tracking system that serves all renewable generators that operate within WECC. Today, PAC programs must source WREGIS registered RECs.

Background:

On July 29, 2009, on behalf of the Portfolio Options Committee (the POC), Staff recommended the Commission approve the release of PAC's Request for Proposals (RFPs) for Program Services[4] for its 2010-2012 Voluntary Renewable Usage programs.

Staff notified the Commission that these RFPs called for bids that included sourcing of RECs from outside of the WECC, so as to explore strategies to achieve product price stability during the contract period.[5] Staff posited that, if this sourcing proved a viable solution to product price stability, the bids would lead to a request that the Commission change its existing sourcing policy. The existing policy requires that RECs sourced for PacifiCorp's Block, Renewable Usage, and Habitat (Renewable Usage with a Habitat Option) be WREGIS registered RECs.[6] Staff proposed the Commission defer policy decisions until its November 3, 2009 Public meeting.

The Commission subsequently approved the release of these RFPs, contingent on the exploration of options that would not require a change in Commission policy.[7]

This requirement led to a three month investigation, described later in this memo, carried out in parallel with the bidding process. The only option that emerged from either effort was a strategy of variable blending of nationally and WECC sourced RECs to manage the uncertainty (anticipated cost increases) in the WECC REC market.

The investigation ultimately resulted in a commitment by POC leadership to further explore "steel in the ground"[8] or other non-REC based alternatives before the end of 2009. RNP support of the current Committee motion is partially predicated on this commitment to evaluate and work towards deploying a non-REC based product for the next contract cycle.

Portfolio Options Committee Recommendation

At the Portfolio Options Committee meeting on October 12, 2009, the Committee voted 9-2 to support the following recommendation:

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[4] Program services include product marketing and REC sourcing services.
[5] REC prices for RECs sourced in the WECC are expected to escalate during the contract period, if California allows unbundled REC's from the WECC to be used to comply with the CA Renewable Portfolio Standard (RPS).
[6] WREGIS RECs are currently, by definition RECs for power generated in the WECC. This will change in the future, when WREGIS gains the ability to register and/or transfer in RECs from other regions.
[7] These options included explorations of "steel in the ground," stable-rate options, and long term fixed price contracts. This contingency was requested by RNP in their public statements at the July 29, 2009 meeting and included in conversations with the Companies as part of the agreement to write the Staff memo, approving release of the RFPs.
[8] "Steel in the Ground" refers to customer purchase of bundled energy instead of REC based representations of the unbundled attributes of renewable energy.

"The Portfolio Option Committee recommends that Portland General Electric and PacifiCorp be allowed to meet their voluntary renewable portfolio options requirements with RECs generated from the WECC, to the maximum extent possible, and utilize non-WECC, or national, RECs only as necessary to maintain the renewable portfolio option prices similar to current levels.

At no time will national RECs constitute a majority, within a three-year rolling average period, of RECs in the usage products. If there is a need to exceed a majority within a three-year rolling average period, the utilities will bring that issue back to the POC.

The preference of the Committee is that the block products offered within the portfolio remain based on WREGIS RECs and that national RECs be utilized only in the usage-based products.

The Portfolio Options Committee also recommends that all RECs must continue to meet the requirements for Green-E certification and be retired in the tracking system of the region where they are generated,[9] until WREGIS is able to accept transfers from other regions. The utilities will also disclose sourcing options in customer information in an ongoing manner as described in materials provided by the utilities (attached to this recommendation)."[10]

Staff and ODOE were the two dissenting votes. Both agree that the recommendations contained in paragraphs one and four of the Committee proposal are <u>necessary</u> to maintain voluntary renewable programs at current strength and credibility and to enable these programs to grow.

However, Staff and ODOE voted against the proposal because it is <u>not sufficient</u> to meet the joint objectives of achieving value for the Company, value/choice for Customers, an enduring Commission policy, and full disclosure to customers.

Staff argues that the recommendations contained in paragraphs two and three are not concrete enough to serve these joint objectives. In addition, the disclosure of sourcing is insufficient to communicate the shift in value proposition that is taking place[11] given that the option to purchase local renewable energy has been available to customers since 2002 and these programs have been strongly marketed as OR/WA or regional energy from their inception.

[9] In addition to WREGIS, several regional tracking systems are in place (as well as a North American system.) The regional systems are: PJM-GATS; M-RETS; NEPOOL GIS; and ERCOT.
[10] See Attachment B for PacifiCorp plans.
[11] A shift of value proposition is taking place for customers who value local sourcing..

Staff Alternative

Staff recommends a three-part alternative to the POC recommendation, as follows.

1) The Commission broaden its policy to allow PAC to source RECs in U.S. markets outside the WECC for its voluntary renewables products, within the conditions outlined in paragraphs one and four of the Portfolio Options Committee recommendation, and

2) The Commission require PAC to continue offering new and existing customers the option to purchase 100% of their usage as "local renewable energy,"[12] as a condition of broadening its REC sourcing policy, and

3) The Commission require PAC to offer this "local renewable energy" option as a "value and price adder" to its voluntary renewable products and require that the products that will be based on RECs sourced in areas outside the WECC (other regional markets) be identified as PAC's "National" products.

A "word picture" of the staff alternative (as contrasted against existing PacifiCorp products) is given in Attachment A.

The primary objective of this recommendation is to clearly communicate to customers that the proposed 2010-12 program has a different value proposition[13] than the previously advertised program.[14]

A second objective of this recommendation is to enable customers to retain their existing choice to source 100% of their electricity usage "locally" by purchasing RECs representing energy generated in the WECC.

A third objective is to make this choice simple enough by structuring the "adder" in a manner similar to PGE's Habitat option. Finally, Staff's objective is that this program be sustainable, over the 3 year contract period, in the face of the uncertainty in REC sourcing facing PGE's third party partners.

ODOE agrees with the elements of, and arguments in support of, the Staff alternative.

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[12] As represented by the purchase of 100% WREGIS registered, WECC-generation based RECs

[13] Again, a REC is a market instrument created to house the value of renewable energy that is not captured by the value of the power flowing into the grid. If the attribute of renewable energy that a customer values (as represented by a REC) is predicated on the assumption that the energy enters the same grid that serves the customer, it matters where that renewable energy is generated. If the attribute of renewable energy that a customer values is not predicated on the assumption that the energy enters the same grid, it does not matter where the energy is generated.

[14] For customers who do care about local sourcing, a nationally sourced product has a different value proposition.

DISCUSSION: Support of POC recommendation for blended REC sourcing

Portfolio Options Committee (POC, the Committee) members unanimously agree that the contract period of January 2010 through December 2012 cannot be navigated in a "business as usual" fashion.

Anticipated REC price increases

Although stabilizing changes have occurred in the WECC REC markets since 2008,[15] unwelcome changes are dominant. In the WECC REC[16] market the price of RECs has more than doubled[17] and the current market is illiquid.

This unwelcome change in REC prices has been attributed mostly to market anticipation of California treatment of unbundled RECs. By all reports, the market is "on hold" awaiting the outcome of a pending change to the California Renewables Portfolio Standard (RPS) that is likely to allow unbundled RECs to be more widely used to meet the California RPS requirements.

The likely REC cost escalation, if California acts as anticipated, will result in tariff increases that would be unacceptable to the majority of customers of voluntary renewable power purchase programs. PacifiCorp and PGE data indicates that only 16% of customers surveyed would be willing to pay the $20/month anticipated to be required for the average customer to "buy renewable energy which comes from the Western region of the US exclusively." (Survey showed the outline of the WECC.)

Blended REC sourcing: National & WECC – the only viable, short-term solution

In Fall 2008, PAC requested and received Commission approval to increase the pricing for voluntary renewable product options for the first time in program history.[18]

[15] Stabilizing changes: As of January 2009, 100% of RECs supplied for the Companies' voluntary Renewable Power programs must be registered and retired in WREGIS. This registration and retirement was originally required to begin on January 1, 2008 (Commission Order on January 10, 2006). In Order 08-278, the Commission adopted the Portfolio Option Committee recommendation that this requirement be waived until January 1, 2009, when the majority of the REC market was predicted to be registered through WREGIS.

[16] A WECC generated REC is the only REC that can be registered in WREGIS at this time.

[17] This is largely due to many states adopting renewable portfolio standards. In addition, prices for WREGIS registered RECs are higher than for WECC registered RECs. Staff argues that this represents the value of the additional credibility of these RECs and the cost to register them.

[18] PacifiCorp Advice No. 08-020. The pricing for these options had not changed since 2002. The tariffs were originally structured at a high enough level to allow for fluctuations in prices of RECs. Throughout the program, surplus dollars collected through the tariffs have been held in a fund to cover future price increases in RECs and to (potentially) fund new renewable energy projects.

In response, a small group from the POC launched an investigation into available options for pricing control, including in that investigation options posed by RNP in its July 29 letter to the Commission. In parallel, the group awaited the results of "creative bids" from the third party program services bids solicited through PAC's RFP process.

By mid-September, the group concluded that that there were no short-term "steel in the ground" or non-REC based alternatives to current REC-based voluntary renewables programs[19] and that uncertainty in the REC market made it unlikely that long-term, fixed price sourcing alternatives could be secured. Responses to PAC bids did not result in other options beyond variable blending[20] of national and WECC sourced RECs.

The Committee concludes that asking the Commission to change its policy to national REC sourcing is the only viable short-term cost containment alternative available for the Company's voluntary renewable programs for the contract period.

Customer acceptance of REC sourcing

PAC has concluded that their customers would rather embrace a change to "acquisition of renewable energy from national sources" than move to the high(er) price point required to continue acquiring this energy from only WECC sources. Data in support of this position was shared with the Portfolio Options Committee on 10/12/2009. [21]

PacifiCorp also found that customers surveyed are more concerned about price than location of the generation. In short, 83% indicated that they would prefer a product that includes national RECs in order to keep the price low. Only 13% percent of respondents identified a strong preference for regional resources.[22] Only 8% indicated that they would leave the program if it included energy resources outside of the region.

Similar data is available from PGE customer research completed in April 2009;[23] it supports the PAC argument that <25% of customers will pay more for WECC sourcing.

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[19] The Company strongly asserted, and long-term Committee members agreed, that it would take a long time to work through: a) regulatory barriers to utility carve-outs of existing renewables and b) Company arguments that it would be inappropriate for the Company to take on the risk of serving large loads with "steel in the ground" programs without the potential for financial reward, as well. The Company does not earn a return on voluntary renewable programs.

[20] Blending provides price stability by combining higher price and lower price RECs into one average price that is acceptable to customers.

[21] This survey was carried out in September-October 2009. PacifiCorp sent postcards to 5000 households, inviting them to take an on-line survey. PacifiCorp received 476 responses to the key questions in this survey.

[22] This response was measured independent (without consideration) of price.

[23] In April 2009, PGE completed research on customer views of the importance of sourcing location for RECs and program pricing as it relates to sourcing of RECs. This survey reached 200 current customers and 450 prospective customers. In order to secure 100% sourcing of RECs in the region, twenty six percent (26%) of customers would pay $10 more/month; 8% of customers would pay $15 more/month and only 2% of customers would pay $20/month.

In addition, PacifiCorp presented data from 476 survey respondents showing that the average customer perception of the current geographic location of sources of renewable energy is:

35% Oregon only
44% outside Oregon but within the WECC
21% outside the WECC but within the US

The Committee concludes the average customer already believes that not all renewable energy is generated from within the WECC, although they expect that most of it is.

Continued emphasis on REC Registration and Certification

Over Portfolio Options Committee history, Committee action has lead to an increasing emphasis on "new resources" and on tracking and certification of RECs.

In 2007, 100% of RECs for voluntary renewable products were required to come from "new generation,[24]" strengthening the credibility of programs as contributing to more renewable generation than would occur without the programs.

In 2002, PacifiCorp committed to sourcing RECs and contracting for renewable energy marketing programs that are "Green-e" certified.[25]. As of January 2009, Commission decision requires that 100% of RECs supplied for the Companies' voluntary renewable energy programs be registered and retired in WREGIS.[26] These commitments were undertaken to strengthen the credibility of voluntary renewable energy programs.

[24] OAR 860-038-0220(4) directs the Portfolio Options Committee to recommend the resource content of each renewable energy resource product and requires that at least one renewable energy resource product contain "significant new" resources. In Order 03-208, the Commission approved the Portfolio Options Committee recommendation that a "new resource" be defined as one that meets the requirements of Oregon's Electric Industry Restructuring Law (SB1149), codified as ORS 757.600(21). SB1149 requires that a "new" renewable resource is generated by a facility that first started operation after July 23, 1999. Order 03-208 also required that 100% of renewable content in Block Options be from new resources and established a preference for REC bids from generation facilities located in the WECC. In Order 06-350, the Commission adopted the Portfolio Option Committee recommendation that 100% of the content of RECs be from "new" resources, as of January 1, 2007

[25] PacifiCorp programs are Green-e certified, which means that they are annually audited by "Green-e" as to compliance with Green-e criteria in REC sourcing and in marketing of the attributes of this unbundled power. PacifiCorp commits substantial dollars for the credibility brought by this certification. PGE's program is "Green-e certifiable"; i.e. PGE and their third party marketer assert that their RECs meet the same criteria. The PGE program is not audited by an independent third party & they do not communicate that their program is Green-e certified or certifiable to customers.

[26] The WREGIS system provides a robust method to prevent multiple claims for specific electricity generation. This process and the current renewable resource options provide the best assurance available that subscribers' energy usage is matched with "new" renewable energy generation , that the generation facility is located in the U.S. regions of the WECC, and that energy generation is not being double counted. This registration was originally required to begin on January 1, 2008 (Commission Order on January 10, 2006).

Committee members continue to see the value of sourcing of RECs from energy generated in the WECC and that are registered in WREGIS, as evidenced by conversations in the Committee meetings and codified in the Committee motion.

Arguments in Support of Staff Alternative

The Staff alternative builds on the Committee recommendation and addresses three concerns, not addressed by the POC recommendation:

1) Customer choice,
2) Sustaining the program over the three year contract period, and
3) Threats to program credibility

Local Sourcing; Customer Choice

As mentioned above, PacifiCorp demonstrates[27] that a large majority of customers are comfortable with national or blended sourcing of RECs.

The Company proposes to offer a voluntary renewable usage product to serve this majority of customers and proposes to "not serve" the minority of customers who plan to leave the program if a portion of RECs are sourced nationally.

In competitive markets, companies choose to address the portion of the market that will be most cost effectively addressed by their product offering. In return, companies take the risk that the portion of the market that they choose not to address will provide a foothold for competitors to gain entry into the company market.

In a monopoly market, companies do not face this risk. If customers that feel strongly about local sourcing are not served, these customers have no option in the PacifiCorp monopoly electricity market. No other options for giving this customer segment access to local renewable energy, were discussed during Committee or small group meetings. [28] [29]

In Order 08-278, the Commission adopted the Portfolio Option Committee recommendation that this requirement be waived until January 1, 2009, when the majority of the REC market was predicted to be registered through WREGIS.

[27] PacifiCorp's arguments are supported by customer research data, as detailed earlier in this memo.

[28] The Companies have not made a commitment to offer the Block (or Fixed) products with 100% WECC RECs. Although this is stated as a preference in the POC recommendation, Staff has learned that "silence" does not mean agreement. Only the City of Portland commented on this alternative while it was voted in as a "preference."

[29] In response to a courtesy copy of this memo, PGE asserts that customers can buy RECs directly from third party marketing organizations. However, Staff, ODOE and RNP have not found this option available to residential customers, after a morning of searching by all three parties. These options should be considered by the Commission in making a decision as to whether or not these customers can be served in this manner or whether customers prefer to be served by their electric company. Again, these options were offered to or considered by the POC.

Staff argues that these customers should be given a choice to continue purchasing the product that is most consistent with existing Commission policy and that has been the available option over program history.

Sustainability of Programs over the three year contract period

Staff argues that the POC's recommendation of a soft cap (a "rolling three year window of REC purchases that will not exceed 50% without consulting the Committee") is merely postponing a tough call.

PacifiCorp could not, in good faith, allow the Committee recommendation to include a hard annual cap on the percent of non-WECC (national) RECs to be included as part of the voluntary renewable usage sourcing blend.

The Companies and their third party program services firms are faced with such market uncertainty that they can promise almost nothing, except that they will come back to the Portfolio Options Committee, if the REC market requires that they exceed the 50% limit of national RECs, measured on a rolling three year average basis[30].

From Company resistance to Committee proposals to place a hard cap on the percent of non-WECC sourced RECs in the variable blend, Staff concludes that the POC recommendation is likely to need to be revisited during the contract term.

If the key objective of the POC recommendation is to maintain enrollment and product prices at close to current levels, only a program that allows as much national REC sourcing as is required to do so will be sustainable over the 3 year contract period.

Threats to Program Credibility

Staff is most concerned that voluntary renewable program credibility is at risk unless there is clear communication that a sourcing shift is occurring.

This is most important to the 5-15% of customers that care deeply about local sourcing and to potential new customers influenced by "local renewable energy" program marketing messages over the last seven years.

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30 Without a product name change to signal national RECs in the mix, the 50% limit, as measured, is problematic. The condition that the 50% limit is measured as a three year rolling average could allow for REC purchases to be 100% WREGIS in 2010, 50% WREGIS in 2011, then 5% WREGIS in 2012 without a substantive change in the marketing message. This could pose a dramatic threat to program credibility in 2012. Without a change in naming, it is not clear that an existing or prospective customer in 2012 will easily understand that most of their support may be to projects east of the Rocky Mountains.

The Companies argue that expanding sourcing beyond the U.S. regions of the WECC is consistent with the direction of past changes in the programs, which have included the shift away from Oregon/Washington generation and specific source mixes.

Staff and ODOE disagree with the implication that the migration of eligible resources over time from Oregon-Washington to WECC based REC sourcing to sourcing of RECs outside the WECC is a natural progression with limited risk to program credibility.

The Company/Committee argument has two flaws. First, it pre-supposes that customers who do care about local sourcing know that the shifts from "steel in the ground" delivery of bundled energy[31] to an OR/WA REC based product to a WECC REC based product have occurred.[32] Second, the argument supposes that educated customers[33] will feel the same way about a change in sourcing that is unlikely to physically impact "power in the local grid" as they might about changes in sourcing that still enable their purchases to impact generation dispatch decisions for "the power in their local grid."[34]

All agree that only a small minority of customers is likely to be knowledgeable about the fact that power does not commonly flow between grids across the United States. Staff agrees that the Company's communication plans are comprehensive[35] and believes that only a fraction of those who care passionately about local sourcing are likely to "find out" that sourcing shifts have occurred. And, admittedly, if all 8% of those who care about local sourcing were to drop from the rolls, PacifiCorp's program will still have far more participants than if it loses the larger percentage of participants who have indicated that they prefer lower prices.

However, comprehensive compliance with disclosure requirements remains insufficient.

Staff argues for marketing communications that are targeted to allow customers who do care about local sourcing to make the decision as to whether they are willing to pay for it and to make it unlikely that existing customers will miss the fact that a sourcing shift has occurred. What is required is a marketing plan (intention to reach and penetrate), rather than a communications plan (disclosure compliance).

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[31] PacifiCorp's original Block program was a "steel in the ground" option that was later converted to a REC based program.
[32] The assumption is that customers know the shift from Oregon-Washington energy to WECC energy has been made because the Company has documented and "pushed" this information to customers. However, no Committee member has data to support (or refute) that local-sourcing-passionate customers[32] know that the sourcing shift from Oregon-Washington to the WECC has occurred. PacifiCorp does have data that indicates that 8% of customers will leave the program if they learn that sourcing will move nationwide, without another alternative for them.
[33] Educated customers = those who know that the grids are not connected.
[34] New renewable resources installations in the WECC can impact the dispatch of electrical production in the WECC.
[35] See Attachment B.

Staff argues this on behalf of voluntary renewables program credibility.

Specifically, Staff and ODOE are arguing that those who will care that a sourcing shift has occurred are likely to be thought leaders who will carry this issue to the broader community of customers. This must be so, otherwise many Portfolio Options Committee recommendations have no logical audience[36].

Staff argues that "knowledgeable thought leaders" are those that the Portfolio Options Committee has targeted with its historic moves to require more "new" generation and with its moves to Green-e criteria and WREGIS registration.

If the majority of customers do not know (and do not care)[37] about the details of REC purchases versus the actual purchase of "steel in the ground" delivery of renewable energy; if the majority of customers are just as happy with sourcing of RECs nationally as they are with sourcing of RECs in the WECC, then they most certainly do not understand or yet care about the details of percent of new generation and tracking, registering and retirement of RECs in WREGIS or other regional registration systems.

That these things do matter, however, is underscored by Committee action over the history of the Portfolio Options Committee and by continuing Committee interest in including these requirements in the current Committee motion.

Further, voluntary renewables program marketing messages have been heavily laced with references to the local and Northwest regional impact of voluntary renewable programs,[38] from their inception in 2002 until the present.

Intentional marketing efforts such as these take a long time to take hold; efforts to change messages in the minds of customers take an equally long time to take hold.

Staff does not agree that changing communication materials will be sufficient to accomplish the objective of ensuring that a shift from local to national sourcing is well known.

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[36] Obviously, these Portfolio Options Committee recommendations are also addressing Commission policy and Commission standards of transparency and assurance of disclosure.

[37] PGE asserts that customer research carried out in 2007, showing that customers do not know the name of the product that they are buying from PGE indicates that customers do not care about the intricacies of what they are buying and, specifically, that they do not care to know about REC sourcing.

[38] An equally valid interpretation of PacifiCorp survey data showing that customers believe that ONLY 21% of renewable energy is supplied by national resources, is that marketing of renewable energy as "being local" has been effective.

In short, Staff argues that it is as important to program credibility to be certain that customers know the value proposition of what they are buying as it is to for resources be new resources, for tracking systems to solidly verify that resources are not being double counted, and for customers to know that some portion of their voluntary renewable program payments supports development of renewables in the Northwest.

The 8% of customers who indicate that they will leave the program if RECs are sourced nationally are declaring that there is a different value proposition (to them) for a product based on nationally sourced RECs than there is for locally sourced RECs.

Staff and ODOE recommend that the best way to deal with this credibility threat is to communicate the contrasting alternatives.

Offering a clearly separated "local sourcing option" adder will allow existing customers who care about local sourcing to know that they need to make a change if they want to continue buying the product they might believe they are already buying. A new customer who is asked "do you want to buy the nationally sourced product for $10/month or the 100% locally sourced product that impacts the resource mix on the Western grid for $20/month?", knows that the base product is not 100% locally sourced.

Timing of Change

It will take time for PacifiCorp to make the changes required to "add an option" to the new majority program. Program rules allow that RECs only need to be purchased for the 2010 program by March of 2011. These rules provide PacifiCorp sufficient time to design a program that will meet the communication clarity benefits described by the staff alternative and to "trigger" this program IF the expected need to source with national RECs emerges.

PacifiCorp has clearly stated that it does not support the Staff alternative. The Company believes that Staff's alternative will add more customer decision points and increase program complexity with no benefit. Further, PacifiCorp does not believe it has time to deploy these changes.

Summary

Staff recognizes the virtues of the POC recommendation, but argues that more effort needs to be made to provide an alternative to the Commission that enables existing Commission policy to endure, that upholds Commission standards of disclosure, and that provides a local option to PacifiCorp customers.

PROPOSED COMMISSION MOTION:

1. The current policy requiring 100% sourcing of WREGIS RECs be changed to allow PacifiCorp to support its voluntary renewable programs through sourcing of RECs in US regions outside the WECC, as needed, to continue offering its voluntary renewable products at or close to the current price point.

2. PacifiCorp be required to add naming qualifiers to products delivered with RECs sourced outside the WECC and to continue to offer customers an option to purchase a 100% WECC based product, as a "value and price adder" for its base products, as a condition of approval for this policy change.

3. PacifiCorp be required to file tariffs for its voluntary renewable usage programs program with a "value and price adder" at the time that it needs to begin sourcing RECs outside of the WECC and that PacifiCorp be required to design the program and prepare for its roll-out in the interim.

Attachment A. The table, below, is a snapshot of product names and marketing slogans for PacifiCorp's three existing voluntary renewable options.

PacifiCorp (today) [39]	
Blue Sky Usage	"based on your total monthly usage and features energy from a blend of renewable sources"
Blue Sky Block	"support wind energy in 100 kWh increments ... to match a portion ... of your energy use to wind resources around the region"
Blue Sky Habitat	"like Usage... includes ... preservation and restoration of native fish habitat"
Current Optional Adder : none	

For illustration purposes, PacifiCorp's Voluntary Renewable programs could look as follows, under the Staff alternative.

PacifiCorp (base alternatives, purchased by the majority of customers)	
Blue Sky Usage - National [40]	"based on your total monthly usage and features energy from a blend of renewable sources from around the nation"
Blue Sky Block-National[41]	"support wind energy in 100 kWh increments ... to match a portion ... of your energy use to wind resources around the nation"
Blue Sky Habitat-National	"like Usage... includes ... preservation and restoration of native fish habitat"
Optional Adder (to any of the above)	
Western Grid [42] option	AND "now with 100% of your usage purchases offset from renewables on the Western Grid"

[39] Per http://www.pacificpower.net/Article/Article39370.html (October 22, 2009). These PacifiCorp options include a Block renewable product (called Blue Sky Block), a Renewable Usage product (called Blue Sky Usage), a Renewable usage product with a Habitat Option (called Blue Sky Habitat). This "value and price adder" enables customers to make a fixed monthly contribution to restoring salmon habitat.
[40] Naming conventions similar to the ones proposed in the table, below, were offered by several members, during the Portfolio Options Committee decision process. A naming convention should be designed by PacifiCorp/Third party marketers to communicate that sourcing is allowed from regions throughout the US, subject to other requirements as to facility age, resource type, etc.
[41] Although the POC recommendation includes a stated preference that the Blue Sky Block product offered in the portfolio remain based on RECs sourced in the WECC, the Companies have not committed to do so.
[42] A naming convention should be designed that communicates that allowed sources are from U.S. regions of the WECC subject to other requirements as to facility age, resource type, etc.

Attachment B.
Pacific Power Communication Plan - Blue Sky 2010 Program Modifications

Targeted Customer Group: Existing Blue Sky Program Participants—Executed between December 2009 and January 2010.

Participant Letter - Deliver a letter to all participating customers which follows a format similar to what was sent to customers in January 2009 (see attached Exhibit 1). This letter is a customized report to each customer on the impact of their Blue Sky purchases over the previous year and to communicate any relevant program updates. Pacific Power will dedicate significant space to describing 2010 changes, the reasons they were made, and to notify customers that they may change or cancel their participation at any time by calling 1-800-769-3717.

Bill message on bill and/or bill insert directed to all Blue Sky customers beginning as soon as the tariff which includes the program change is approved by the OPUC.

Creation of a **Blue Sky customer web page** dedicated to explaining the changes and reasons why the changes were made.

Targeted Customer Group: Newly Enrolled Participants

All newly enrolled Blue Sky customers receive a letter acknowledging their enrollment and include the Product Content Label and Price Terms and Conditions document required by Green-e which outlines which generation sources are supported and specifies the states in which they are located (see Exhibit 2 for a copy of the current Price, Terms, and Conditions and Product Content Label).

Targeted Customer Group: All residential customers of Pacific Power (Participants, non-participants, those considering participating)

Customers will continue to be invited to review the **Product Content Label and Price Terms and Conditions document** required by Green-e which outlines which generation sources are supported and specifies the states in which they are located (see Exhibit 2 for a copy of the current Price, Terms, and Conditions and Product Content Label) prior to enrolling.

Pacific Power will continue to comply with **the Green-e Energy product content label disclosure requirement** which requires Pacific Power to illustrate and communicate annually the resources supported by the program over the past year and those projected to be supported over the coming year along with detailed information about the states in which facilities are located. This information must be disclosed to all participating and non-participating residential customers by June 30, 2009 each year. See attached Exhibit 3. to see how this information was communicated to customers in 2009.

Pacific Power will also continue to conform to the Green-e Energy marketing requirement which states that **all residential marketing pieces,** which also includes an enrollment form, must detail the renewable energy sources and facility locations by state either on the enrollment form or by referring customers to find this information on a website.

Update all ongoing communication materials—Specifically, Pacific Power will update any mention of the retail rate, the resources the program supports, the regions in which the program supports facilities, updating any mentions of "regional" to "regional and national". These changes will likely need to be made on the following documents:

- Brochures (residential and business)
- Enrollment postcards
- Oregon business enrollment form
- Program factsheets
- Multiple web pages on pacificpower.net/bluesky including online enrollment form and linked Product Content Label, online calculator and other affected web pages.
- Power point presentation templates
- Green-e required Price, Terms and Conditions and Product Content Label
- Welcome Aboard Blue Sky flyer

Pacific Power will use best efforts to update all customer communication material by the tariff change effective date.

Targeted Group: Customer Facing Employees

All Customer Service Reps will receive a communication before the program changes are announced to customers.
Customer Service Employee resource tools (information in LIGHT and Blue Sky talking points) will be updated as needed and in advance of program changes.

Exhibit 1—previous year's Annual Report; mailed to all Blue Sky customers in January

PACIFIC POWER

P.O. Box 400
Portland, Oregon 97207-0400

Customer Name
Address
City, State, Zip

Dear Jane Johnson,

Thank you for supporting renewable energy through Pacific Power's Blue Sky℠ Usage program.

You made a difference in 2008!
We're pleased to present your **personalized 2008 Blue Sky support details** to show you the difference you've made:

- Your total 2008 Blue Sky purchase of xx,xxx kilowatt-hours of renewable energy avoided the release of xx,xxx pounds of carbon dioxide into our air. This represents environmental benefits equal to not driving xx,xxx miles.

Now, that's worth celebrating!

In 2008, 67,000 Blue Sky customers supported 490 million kilowatt-hours of Green-e Energy certified renewable energy — that's equal to the output of 107 wind turbines.

Stay informed
Read our *Forecast* newsletter on our Web site (**pacificpower.net/forecastnl**) in April and September, to stay up to date on the Blue Sky program.

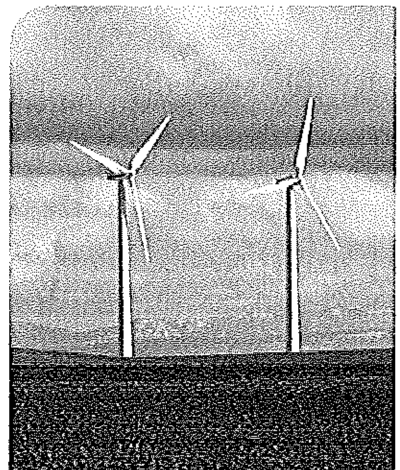
Working together
In addition to Blue Sky customer purchases, Pacific Power has committed to acquiring 2,000 megawatts of renewable resources by 2013. 2,000 megawatts is more than six times the capacity of Oregon's largest wind farm. To see our combined renewable accomplishments visit **pacificpower.net/renewablemap**.

We look forward to making a difference together in 2009! Please feel free to contact us at **1-800-769-3717** if you have any questions about the program. Let's turn the answers on.

Sincerely,

Karen Gilmore

Karen Gilmore
Vice President, Customer Services



Visit a wind farm! Join us for the 2009 wind farm visit on June 13. E-mail **windtour@pacificpower.net** to learn more.

Important information about your Blue Sky rates:
Due to increased renewable energy costs, the price of Blue Sky Usage changed from $0.0078 to $0.0089 per kwh (still less than a penny per kwh), effective January 1, 2009. This means that the average customer bill will increase by $0.97 each month.

Visit **pacificpower.net/blueskyrates** for answers to questions about this change.

The environmental benefits figures in this letter are based on the average non-base load generation emissions from the Western Energy Coordinating Council (WECC) region, as updated September 2008, and on data and calculations provided by the U.S. Environmental Protection Agency (www.epa.gov/cleanenergy/energy-resources/egrid/index.html and www.epa.gov/cleanenergy/energy-resources/calculator.html).

PP-U-R Green-e Energy

Exhibit 2— current version of Blue Sky Usage and Habitat Product Content Label and Price, Terms, and Conditions (available online and enclosed in all new participant letters).

Blue Sky℠ Usage and Habitat Product Content Label

Pacific Power's Blue Sky Usage and Habitat renewable energy programs focus on supporting regionally-supplied, newly-developed renewable energy to match customer usage. The product is made up of the following resources and supports new renewable energy.

Eligible renewable energy source	Blue Sky Usage and Habitat product	Generation location
Wind	At least 61%	OR, WA, MT
Solar	1%	OR, CA
Geothermal energy	0%	
Low emissions biomass - including landfill and sewage gas	Up to 38%	OR, ID, CA, UT
Certified low impact hydroelectric	0%	
Fuel cells using a renewable fuel	0%	
Total	100%	

These figures reflect the actual renewable energy we have contracted to purchase as of February 2008. Generation location sources can vary according to resource availability. We will annually report to you the actual resources mix of the renewable energy you purchased during the preceding year.

New renewables come from generation facilities that first began commercial operation on or after July 23, 1999.

For comparison purposes, in 2006 the current average mix of energy sources supplying Pacific Power customers is 74.6% coal, 0.7% wind, 12.0% hydro, 0.7% biomass, 11.3% natural gas, 0.7% other.

The average Pacific Power home in Oregon uses 1,036 kwh per month.

For specific information about this product, please contact Pacific Power at **1-800-769-3717** or visit **pacificpower.net/bluesky.**

Energy CERTIFIED

Green-e Energy certifies that Blue Sky meets the minimum environmental and consumer protection standards established by the nonprofit Center for Resource Solutions. For more information on Green-e certification requirements, call 1-888-63-GREEN or log on to www.green-e.org.

Pacific Power's Prices, Terms & Conditions for Blue Sky renewable energy

Pacific Power's Blue Sky program is certified by Green-e Energy, which requires companies offering certified products to provide their residential customers with this notice of Price, Terms and Conditions of service. You may cancel your participation in the Blue Sky program by calling **1-800-769-3717** or writing to Pacific Power, P.O. Box 400, Portland, Oregon 97207-0400. For more information about Green-e Energy, write Green-e Energy, Presidio Building 97, Arguello Blvd., P.O. Box 29512, San Francisco, CA 94129, log on to www.green-e.org or call toll-free 1-888-63-GREEN.

Company:	Pacific Power
Who should I contact for more information?	Call **1-800-769-3717**, e-mail bluesky@pacificorp.com, visit **pacificpower.net/bluesky** or write to Pacific Power, P.O. Box 400, Portland, OR 97207-0400.
How will I be billed for my Blue Sky purchase?	Your Blue Sky renewable energy charge will be listed on your monthly Pacific Power bill as a separate line item. This charge is in addition to your regular bill.
How will the Blue Sky charge on my bill be calculated?	An additional $0.0089 (less than a penny) per kilowatt-hour used. *Customers enrolled in Blue Sky Habitat will also pay $2.50 each month for native fish habitat restoration and preservation in Oregon. The Nature Conservancy administers this fund. Green-e Energy only certifies the renewable energy sold in the Blue Sky program.*
Will the Blue Sky rate change over time?	The cost of Blue Sky is in addition to your regular electricity rate and is approved by the Oregon Public Utility Commission. You will be notified of any price change in advance through customer communication.
What fuel sources will be used for this product?	At least 61% wind, up to 38% biomass, 1% solar
Can I cancel at any time without penalty?	Yes. You can cancel at any time with no fees. There is no minimum contract length.
What other fees might I be charged?	You must also pay all applicable federal, state or local taxes.

PACIFIC POWER

Let's turn the answers on.

UsageHabitat 3/09