ORDER NO. 11 517

ENTERED DEC 21 2011

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 234

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY Automated Demand Response Cost Allocation (Schedule 135)	ORDER

DISPOSITION: COST ALLOCATION ADDRESSED; METHODOLOGY ADOPTED

I. INTRODUCTION

In this order, we address a dispute over the appropriate rate-spread methodology to be applied to Portland General Electric Company's (PGE) automated demand response (ADR) pilot program. We adopt the methodology proposed by PGE and supported by Commission Staff and the Citizens' Utility Board of Oregon (CUB).

II. BACKGROUND AND PROCEDURAL HISTORY

In docket UM 1514, the Public Utility Commission of Oregon adopted a stipulation addressing PGE's request for deferral of costs associated with a new ADR pilot program.[1] The parties to the stipulation in that proceeding agreed that PGE should be allowed to defer the costs of the pilot, but disagreed about the appropriate methodology for allocating the pilot-related costs. The cost-allocation issue was carved out of that docket and deferred for resolution here.

[1] *See Re Portland Gen. Elec. Co. Application for Deferral of Incremental Costs Associated with Automated Demand Response,* Docket No. UM 1514 and *Re PGE Application for Mechanism to Recover Costs to Implement and Operate Demand Response Program,* Docket No. UE 229, Order No. 11-182 (Jun 1, 2011). The ADR pilot is a two-year program intended to provide 10 MW of capacity benefits in 2012 and 20 MW in 2013. The pilot will provide capacity through curtailments during peak critical events, such as extreme weather, forced outages, transmission constraints, and the loss of wind generation. PGE estimates the program will cost approximately $8 million.

The following parties intervened in this docket: CUB, the Industrial Customers of Northwest Utilities (ICNU), and the Oregon Department of Energy.

On July 29, 2011, PGE filed testimony in support of its proposed cost-allocation methodology. ICNU, CUB, and Staff filed responsive testimony on October 7, 2011. On October 21, 2011, PGE filed rebuttal testimony. All parties waived the right to a hearing. PGE, Staff, CUB, and ICNU filed simultaneous briefs on November 15, 2011.

III. DISCUSSION

By way of background, PGE serves its customers using various types of generation resources, some of which can be classified as primarily energy-based resources (such as wind resources), and others that are primarily capacity-based (such as simple-cycle combustion turbines). Still others, like the Boardman coal plant, can be classified as a mix of energy- and capacity-based resources.

Although these resources constitute a mix of capacity- and energy-based resources, PGE currently allocates the costs of these production resources to each customer schedule based on an equal percent of forecast generation revenues. The methodology looks at PGE's system as a whole and allocates costs system-wide, rather than allocating costs on a resource-by-resource basis. This methodology was adopted and applied broadly in PGE's last general rate revision proceeding, docket UE 215.

PGE would like to use this same methodology to allocate the costs of the ADR pilot program. ICNU argues that a different methodology should be used for the ADR program because of the program's unique characteristics.

A. Positions of the Parties

1. PGE

As noted above, PGE proposes allocating the costs of the ADR pilot program to each customer schedule on the basis of an equal percent of forecast generation revenues, thereby ensuring that the costs of its production resources are allocated in a consistent manner. To single out one resource for special treatment, PGE argues, is inappropriate.

PGE notes that its preferred methodology was used not only in PGE's last general rate case---where it was applied to a wide range of production resources—but has also been used to allocate the costs of resources added to rates during the time periods between general rate cases. PGE points to its Annual Power Cost Update Tariff (Schedule 125); its Renewable Resources Automatic Adjustment Clause (Schedule 122); its Selective Water Withdrawal Adjustment (Schedule 121); and its Boardman Power Plant Operating Live Adjustment (Schedule 145) as examples. The costs of all these resources, PGE argues, have been allocated using the same methodology it seeks to apply here.

PGE argues that its proposal not only ensures consistent allocation of the company's resource costs, it also ensures consistent long-term treatment of the costs of the ADR program itself. PGE states that it intends to continue the ADR program if the pilot proves successful. Once the pilot phase is over, the program costs will be addressed through PGE's annual update tariff, the costs of which are allocated based on forecast generation revenues—the same method PGE would like to use during the pilot phase. PGE argues there is no reason to treat the costs of the program one way during the pilot, only to change allocation methodologies once the pilot phase is over.

In short, PGE argues, there is no good reason to treat the ADR pilot program differently from other resources. The company notes that ICNU's customers generally have high load factors, and thus stand to benefit from ICNU's proposed cost-allocation methodology.

2. ICNU

ICNU argues that the costs of the ADR program should be allocated using an equal percent of marginal generation *capacity* revenues, rather than an equal percent of overall forecast generation revenues. ICNU argues that special treatment of the ADR pilot program is warranted because the ADR program is a unique, capacity-based resource.

According to ICNU, PGE's ADR pilot program provides a limited amount of capacity in very specific circumstances, making it different from PGE's other production resources, which are more broadly available and more difficult to classify (as energy- or capacity-based). The ADR program, ICNU argues, is clearly capacity-based. Yet PGE's general cost-allocation methodology, which is a blend of energy- and capacity- costs, is 69 percent energy-based. Because the ADR program is so clearly capacity-based, ICNU argues, using an allocation methodology dominated by energy costs is "simply wrong."[2] By contrast, allocating the costs of the ADR pilot program on a capacity rather than an energy basis would appropriately reflect the principles of cost-causation.

ICNU argues that it is irrelevant that PGE allocates the costs of other generation resources differently. Using PGE's ordinary cost-allocation methodology in this instance "ignores the unique ADR program characteristics."[3] ICNU argues that the myriad of resources identified by PGE and Staff that are allocated on the basis of forecast generation revenues have at least some capacity *and* energy aspects, so it makes sense to use a blended allocation methodology in such contexts. It does not make sense, however, to apply a blended allocation methodology when allocating the costs of a resource that provides only capacity benefits.

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[2] ICNU Brief at 4; ICNU/100, Schoenbeck/3.
[3] ICNU Brief at 4 (citing *id.* at 4).

ICNU also disputes PGE's and Staff's assertion that changes to generation cost allocation must occur in a general rate case. ICNU argues that no party should be barred from proposing an appropriate cost-allocation methodology at the time a utility actually seeks recovery of new costs.

3. CUB

CUB supports PGE's view that costs of the ADR pilot program should be allocated in the same manner as other generation-related costs. Using PGE's cost-allocation methodology will also ensure consistent long-term treatment of the resource after the pilot phase.

CUB observes that ICNU has advocated for PGE's cost-allocation methodology in the past, suggesting that ICNU seeks to "pick and choose generation resources for cost allocations that favor industrial customers, rather than accepting the occasional unfavorable result that may occur" with the application of a consistent methodology.[4]

Finally, CUB argues, there is tremendous potential for demand response programs, including this ADR pilot, in PGE's service territory. Because ADR programs have the potential to provide benefits across all customer classes in the form of reduced capacity needs, CUB believes the associated costs should be allocated across all customer classes in a manner "that is consistent with other generation resources and is fair, just, and reasonable for customers."[5]

4. Staff

Staff supports PGE's position. Staff explains that the costs of PGE's production resources are generally "lumped" together, and then allocated on the basis of each customer schedule's share of marginal capacity and energy costs.

> Mathematically, this means that insofar as aggregate generation revenues are targeted to equate to aggregate generation costs, the costs of each and every generation/production resource are allocated to each schedule on the basis of that schedule's allocated share of total generation revenues.[6]

Staff concedes that ICNU's methodology does reflect cost causation, which might make it an appropriate methodology if it were applied across the board to all of PGE's production resources. But "culling out costs of this particular capacity resource for special treatment," when other productions costs are allocated in a different manner, leads to "distorted outcomes" that are simply inappropriate.[7]

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[4] CUB Brief at 7. CUB also argues that cost allocation is already distorted in favor of ICNU's members for various reasons. *Id.*
[5] *Id.* at 8.
[6] Staff Brief at 3.
[7] Staff Brief at 5.

According to Staff, if changes to PGE's cost-allocation methodology are warranted, the changes should be made in a general rate case, where any new methodology could be applied consistently across resources. In this case, Staff argues, no special circumstances warrant special treatment for the costs of the ADR pilot program.

Staff also observes, as other parties do, that ICNU's proposal to single out the ADR pilot program for special treatment would benefit industrial customers, who typically have higher load factors than residential or commercial customers.

B. Commission Resolution

We agree with PGE that the costs of the ADR pilot program should be allocated using the methodology adopted in PGE's last general rate case. Under this methodology, the costs of PGE's production resources in aggregate are allocated fairly across customer classes based on the principle of cost-causation.

ICNU's proposed methodology may be reasonable for the specific resource in question, but we cannot look at an allocation scheme for a given resource in isolation. If we adopted ICNU's proposed methodology without altering the cost allocation scheme for all other resources, it would result in a less fair allocation of costs in the aggregate. Although the ADR pilot program is clearly capacity-based, the fact that the resource can be easily categorized does not justify special treatment of that resource. Other resources, such as PGE's wind resources, could theoretically be classified as primarily energy-based and their costs allocated on an energy basis, but even wind resources are subject to PGE's general cost-allocation methodology. Therefore, we reject ICNU's recommendation and adopt the current PGE methodology for allocating costs of the ADR pilot program.[8]

[8] Although we reject ICNU's proposed methodology in this docket, this does not preclude us from considering other cost-allocation methodologies, including resource-by-resource allocation, where warranted.

IV. ORDER

IT IS ORDERED that the cost-allocation methodology proposed by Portland General Electric Company is adopted. The company will calculate the cost allocation for its Schedule 135 (Demand Response Cost Recovery Mechanism) accordingly.

Made, entered, and effective DEC 21 2011.

John Savage
Commissioner

Susan K. Ackerman
Commissioner

Stephen M. Bloom
Commissioner

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.