

ORDER NO. 13 172

ENTERED MAY 07 2013

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UE 272

In the Matter of

PORTLAND GENERAL ELECTRIC  
COMPANY,

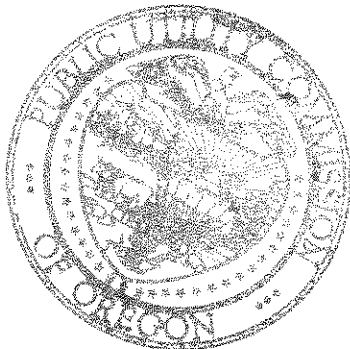
Updates Schedule 135, Demand Response  
Cost Recovery Mechanism.

ORDER

**DISPOSITION: STAFF'S RECOMMENDATION ADOPTED**

At its public meeting on May 7, 2013, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:



*Becky L. Beier*

**Becky L. Beier**  
Commission Secretary

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.

## PUBLIC UTILITY COMMISSION OF OREGON

## STAFF REPORT

PUBLIC MEETING DATE: May 7, 2013

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE January 1, 2014

DATE: April 30, 2013

TO: Public Utility Commission

FROM: Jorge Ordonez JDO

THROUGH: Jason Eisdorfer and Maury Galbraith JE MG

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UE 272/Advise No. 13-04) Updates Rates (Schedule 135) intended to recover incremental costs incurred in the Automated Demand Response (ADR).

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve PGE's request to amortize incremental costs associated with implementing PGE's ADR pilot program.

**DISCUSSION:**

On March 8, 2013, PGE (Company) filed with the Public Utility Commission of Oregon (OPUC) a request for authorization (March Filing)<sup>1</sup> to amortize in rates incremental costs associated with implementing PGE's ADR pilot program (New ADR Pilot Program) under ORS 757.210 and OAR 860-022-0025 and 0030.<sup>2</sup>

Per the Company's March Filing, PGE seeks to amortize approximately \$4.1 million of expenses for calendar years 2013 and 2014. Although at this point the Company does not seek to amortize expenses beyond the end of 2014, PGE represented that expenses as of June 30, 2015 may be estimated at \$4.9 million.<sup>3</sup>

<sup>1</sup> See <http://edocs.puc.state.or.us/efdocs/UAA/18522uaa10434.pdf>.

<sup>2</sup> The authorities under which the Company requests this amortization were provided in a supplemental filing dated April 8, 2013. See <http://edocs.puc.state.or.us/efdocs/UAC/ue272uac14522.pdf>.

<sup>3</sup> The \$4.9 million includes approximately \$4.1 million of expenses from January 2013 to December 2014 and approximately \$0.8 million of expenses from January 2015 to June 2015. See Attachment C of the Company's March Filing in the "Deferred" row.

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## Background

### First ADR Pilot Program

In 2010, PGE selected a third-party ADR provider for implementing an ADR pilot program (First ADR Pilot Program) that began on September 1, 2011. This program failed to meet the initial capacity milestone of 5 MW for the first winter season. The provider then began to experience financial difficulties and failed to meet additional terms of the agreement for the ADR pilot. On April 30, 2012, PGE terminated its contract with the provider.<sup>4</sup> The Company did not incur significant costs with the First ADR Pilot Program and chose to write off the costs.<sup>5</sup>

### New ADR Pilot Program

Although the First ADR Pilot Program was terminated, the Company believes that an ADR pilot program can still be a valuable and viable resource. Consequently, PGE is in the process of selecting a new provider for implementing a new ADR pilot program (New ADR Pilot Program).<sup>6</sup>

In the New ADR Pilot Program, the ADR provider will again be required to respond in near-real time (i.e., a response time of less than ten minutes). The provider will conduct all equipment installations, execute peak load reductions at PGE's request, and provide all customer incentive reconciliations. The provider will contract with large customers (those with demand of at least 30kW) to establish automated systems that can quickly deploy capacity at a determined MW value. Customers may participate in the ADR Program on an opt-in basis. This capability may be used to qualify PGE's demand response for use as planning reserves as allowed by the Western Electricity Coordinating Council (WECC).<sup>7</sup>

<sup>4</sup> See page 2 of Docket No. UM 1514, PGE's Application for Reauthorization of Deferral of Incremental Costs Associated with Automatic Demand Response, filed on December 27, 2012 at <http://edocs.puc.state.or.us/efdocs/HAQ/um1514haq132840.pdf>.

<sup>5</sup> See page 3 of Docket No. UM 1514's Staff memo for the Public Meeting of February 26, 2013, filed with the OPUC on February 22, 2013 at <http://edocs.puc.state.or.us/efdocs/HAU/um1514hau81829.pdf>.

<sup>6</sup> See page 3 of Docket No. UM 1514, PGE's Application for Reauthorization of Deferral of Incremental Costs Associated with Automatic Demand Response, filed on December 27, 2012 at <http://edocs.puc.state.or.us/efdocs/HAQ/um1514haq132840.pdf>.

<sup>7</sup> See the preceding footnote.

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PGE proposes that the New ADR Pilot Program comprise two periods. The first period, which will run through June 2015 (First Period), comprises four operating seasons.<sup>8</sup>

The Company-proposed timeline<sup>9</sup> indicates that there will be two program evaluations (i.e., first and second evaluations). The first evaluation (First Evaluation) will be completed by March 2015 and will evaluate three operating seasons (i.e., summer 2013, winter 2013-2014, and summer 2014). If the First Evaluation is favorable, a second period (Second Period) will extend the First Period until 2016 with four additional operating seasons.<sup>10</sup>

A second evaluation (Second Evaluation) will be prepared by the Company by April 2016. If this evaluation is favorable, PGE will submit the ADR Program as an ongoing capacity resource in its Annual Power Cost Update (Schedule 125) and Power Cost Adjustment Mechanism (Schedule 126), similar to the manner in which the Company handles other power cost and capacity items.

#### PGE Cost-Effectiveness Analysis

On April 11, 2013,<sup>11</sup> the Company filed with the OPUC a confidential cost-effectiveness analysis and a confidential final draft contract between PGE and an ADR provider<sup>12</sup> in support of its New ADR Pilot Program.

The Company's results show that the New ADR Pilot Program is cost-effective because the levelized ADR capacity cost of \$[Confidential] per kW-yr<sup>13</sup> is lower than the Company-provided levelized least cost supply side resource of \$[Confidential] per kW-yr.<sup>14</sup> See column "Company" of Table 1 below:

<sup>8</sup> The four seasons are as follows: summer 2013 (August through September 2013); winter 2013-2014 (December 2013 through February 2014); summer 2014 (July through September 2014); and winter 2014 (December 2014 through February 2015).

<sup>9</sup> See Attachment B of Docket No. UM 1514, PGE's Application for Reauthorization of Deferral of Incremental Costs Associated with Automatic Demand Response, filed on December 27, 2012 at <http://edocs.puc.state.or.us/efdocs/HAQ/um1514haq132840.pdf>.

<sup>10</sup> The four seasons are as follows: summer 2015 (July through September 2015), winter 2015 (December 2015 through February 2016); summer 2016 (July through September 2016); and winter 2016 (December 2016).

<sup>11</sup> See <http://edocs.puc.state.or.us/efdocs/UAC/ue272uac15256.pdf>.

<sup>12</sup> See confidential Attachments 1 through 3 to the April 11, 2013 filing.

<sup>13</sup> This 2013 dollars capacity cost figure is the result of escalating the Company-provided 2012 dollars costs figure using a forecasted 2013 consumer price index of 1.90 percent retrieved from Bloomberg L.P. The Company-provided 2012 dollars cost figure was provided in confidential Attachment 1 of the April 11, 2013 filing at line "Real Lev. Annual Equivalent Per KW (2012\$)".

<sup>14</sup> This capacity cost figure was provided by the Company in confidential Attachment 2 of the April 11, 2013 filing at line "Real Levelized (2013\$)".

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**Table 1**  
**Capacity Costs and Assumptions**  
**Least Cost Supply Side Resource and ADR Capacity Costs**

Assumptions and Results	Units	Company	Staff
Assumptions of Least Cost Supply Resource	-	As provided by the Company in Attachment 2 of confidential filing of April 11, 2013	Assumes a simple cycle combustion turbine (SCCT) as provided by PGE in Docket No. UE 262 <sup>15</sup> (2013 General Rate Case) plus fixed gas transportation. <sup>16, 17</sup>
Assumption of ADR Capacity Cost	-	As provided by the Company in Attachment 1 of confidential filing of April 11, 2013	Includes: - Pilot program expenses through June 2015 as provided in PGE's March 8 filing; - Incentive for exceeding the lower bound nominating reserve in the summer of 2013; <sup>18</sup> and - Ongoing expenses such as PGE non-labor O&M and IT network solutions. <sup>19</sup>
Levelized Least Cost Supply Side Resource (2013\$)	\$/kW-yr	[Confidential]	141
Levelized ADR Capacity Cost (2013\$)	\$/kW-yr	[Confidential]	[Confidential]

<sup>15</sup> Source of capacity costs: UE 262's Exhibit UE 262/PGE/Exhibit 1401, page 2, at <http://edocs.puc.state.or.us/efdocs/UAA/ue262uaa135516.pdf>. This information was updated in PGE's responses to Staff Data Request 199 in the same docket number.

<sup>16</sup> Source of fixed gas transportation costs: Docket No UE 262; PGE's response to Staff Data Request 173.

<sup>17</sup> The capacity cost and fixed gas transportation cost derived from PGE's LRIC were represented in 2014 dollars. Staff expressed such values in 2013 dollars using a forecasted consumer price index of 2.1 percent retrieved from Bloomberg L.P.

<sup>18</sup> Source: Amendment to the DSM Firm Capacity Purchase Agreement provided by the Company with its April 11, 2013 filing.

<sup>19</sup> Staff's estimated annual "ongoing operating costs" comprise annual expenses of "PGE non-labor" expenses and "IT Network Solutions (loaded)" starting at the same levels as the 2015 expenses and escalating annually using a consumer price index of 2.2 percent for year 2015. The 2.2 percent figure is the forecasted consumer price index for the year 2015, retrieved from Bloomberg L.P.

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### Staff Cost-Effectiveness Analysis

Staff's analysis assumes a least cost supply resource of \$141 kW-yr, which is based on a simple cycle combustion turbine (SCCT) as proposed by the Company in its current long-run incremental cost (LRIC) study in Docket UE 262, including fixed gas transportation costs.

When calculating the ADR capacity costs, Staff added to the Company-provided ADR costs of \$[Confidential] per kW-yr the following costs:

1. \$4.9 million<sup>20</sup> of the New ADR Pilot Program costs;
2. An incentive for exceeding the lower bound nominating reserve in the summer of 2013;<sup>21</sup> and
3. Ongoing operational costs up to the end of the contract.<sup>22</sup>

Adding all the above costs to the Company-provided ADR costs resulted in a Staff-adjusted ADR capacity cost of \$[Confidential] per kW-yr.

From Staff's analysis, the Staff-adjusted ADR capacity cost of \$[Confidential] per kW-yr is lower than the Staff-estimated levelized least cost supply side resource of \$141 per kW-yr, making the ADR program cost-effective.

### **PROPOSED COMMISSION MOTION:**

PGE's request to amortize incremental costs associated with implementing PGE's ADR pilot program be approved.

Non Confidential – PGE UE 272 ADR Cost Amortization

<sup>20</sup> The \$4.9 million includes approximately \$4.1 million of expenses from January 2013 to December 2014 and approximately \$0.8 million of expenses from January 2015 to June 2015. See Attachment C of the Company's March Filing in the "Deferred" column.

<sup>21</sup> Source: Amendment to the DSM Firm Capacity Purchase Agreement provided by the Company with its April 11, 2013 filing.

<sup>22</sup> Staff's estimated annual "ongoing operating costs" comprise annual expenses of "PGE non-labor" expenses and "IT Network Solutions (loaded)" starting at the same levels as the 2015 expenses and escalating annually using a consumer price index of 2.2 percent for year 2015. The 2.2 percent figure is the forecasted consumer price index for the year 2015, retrieved from Bloomberg L.P.