

Competitive Power Market for Oregon Business Customers

What does Oregon's law on electric industry restructuring provide?

The Oregon Legislature passed electric industry restructuring in 1999. The law gave business customers of Portland General Electric (PGE) and PacifiCorp two new choices:

- 1) They can choose an alternative supplier if it offers electricity at a lower price or provides other benefits.
- 2) They can choose the utility's "Standard Offer" rate, which is tied to market prices.

For residential customers, the law provided a new market-based option and required that customers have at least one renewable resource option, in addition to the standard cost of service rate.¹

The 2001 Legislature changed the effective date of these provisions to March 1, 2002, and required that all customers continue to have a cost of service option.

The Oregon Public Utility Commission put in place rules to promote the development of a competitive market and minimize the effect on customers that continue to buy power from their utility.

How many business customers are participating?

Customers began choosing a market-based rate when it was first made available, in March 2002, and began service with alternative suppliers in January 2004.

The number of customers choosing alternative suppliers, all large businesses, is up significantly in 2005. These suppliers now serve about 10 percent of eligible load in PGE's service area, up 60 percent compared to 2004. PacifiCorp customers are for the first time buying electricity from alternative suppliers. And sizable numbers of customers of both utilities continue to choose a utility rate tied to market prices.

Participation Today

(March 2005)

	Direct Access			Market-Based Rate (Standard Offer)		
	Number of business customers	Load	% of business load	Number of business customers	Load	% of business load
PGE	24	137 aMW	10.4%	37	8 aMW	0.6%
PacifiCorp	5	18 aMW	2.1%	45	2 aMW	0.2%

Eight "Electricity Service Suppliers" are certified and four aggregators are registered with the Commission.

Three suppliers are registered with PGE to do business: Constellation NewEnergy, EPCOR and Sempra Energy Solutions. PacifiCorp has certified Sempra for its Oregon service area and expects that EPCOR will soon be certified.

¹More than 50,000 residential customers have chosen a renewable resource option, and about 3,000 residential customers have chosen a time of use rate. (Small business customers also participate in these options.) Two of the three renewable resource options are offered by the utilities in partnership with suppliers they selected through a competitive bidding process.

What options do business customers have?

Customers have annual, multi-year and Standard Offer options, in addition to the cost of service rate:

1. *Annual* - All business customers can opt out of the cost of service rate on an annual basis. Customers can begin service with an alternative supplier when their opt-out first goes into effect, or they can select a Standard Offer rate and choose an alternative supplier at a later time.²
2. *Multi-year* – Eligible-size customers can opt out of the cost of service rate for multiple years.

PGE

- The company has offered the following multi-year options:
 - Since 2003, PGE's largest customers have been able to opt out of the cost of service rate for five years – or longer. After five years, participants can decide each year whether to continue on this option or, with two years' notice, terminate the agreement. Two customers with a total of 11.25 aMW of load are participating in this option. One of the customers is receiving service from an alternative supplier; the other is on a Standard Offer rate.
 - No customers enrolled in the three-year opt-out the company offered in fall 2004. It was designed to match the contract term some suppliers are offering.
- Customers with energy usage of at least 1 aMW qualify for PGE's multi-year options. (Customers may aggregate their meters to reach the eligible size if the facility capacity of each point of delivery is at least 250 kW.) The amount of load that can participate in multi-year opt-outs is limited to a total of 300 aMW.
- Customers choosing multi-year opt-outs that do not choose service from an alternative supplier pay Dow Jones Mid-Columbia (Mid-C) daily on- and off-peak rates, plus 2 mills per kWh, line losses, and wheeling and transmission charges.

PacifiCorp – The company's Market Kick-Start Pilot Program allows customers with a demand of at least 2 MW to opt out of the cost of service rate for 6, 12, 18, 24 or 36 months, on any business day, with a transition adjustment calculated at that time. (Customers with a billing demand of at least 200 kW may aggregate their meters to reach the eligible size.) Customers must enroll by June 30, 2005, and participation is capped at 100 MW. The program allows alternative suppliers to report monthly to PacifiCorp and Commission staff all charges paid to Bonneville Power Administration for transmission-related services to deliver power to customers. After staff audits the statements, PacifiCorp will reimburse suppliers for the approved amounts. The company will recover these amounts from all large customers through a balancing account. No customers have yet enrolled.

²PGE offered eligible-size customers an additional, mid-year opt-out for the last six months of 2004. No customers participated. The company has filed a mid-year opt-out for 2005.

3. *Standard Offer* - All business customers have the option of a market-based rate from their utility.

PGE - The Standard Offer option for PGE's small business customers is the daily Dow Jones Mid-C on- and off-peak firm price index.³ Large customers (at least 30 kW) have two additional choices:

- *Monthly* fixed Mid-C on- and off-peak prices, quoted by the 15th of the preceding month, based on the expected market price for power
- *Quarterly* fixed Mid-C on- and off-peak prices, differentiated by month, quoted by the 15th of the month preceding the quarter

PacifiCorp - The Dow Jones Mid-C daily on- and off-peak firm price index (plus an adjustment for transmission line losses) is the Standard Offer option for all business customers.

Are there any incentives for customers to choose an alternative supplier?

Besides the potential for a business to reduce and fix its energy costs over a year or longer, both utilities provide a "shopping credit" of 0.5¢/kWh to encourage customers to try an alternative supplier. The credit is limited to the first 10 percent of qualifying consumer load on a first come, first served basis. Customers may opt out of the cost of service rate conditionally until the utility confirms allocation of the shopping credit. The credits expire Dec. 31, 2006.

PGE - Business customers larger than 30 kW that used less than 1 aMW at a site the prior calendar year are eligible. As of March 2005, 22 customers and 60 aMW of load are receiving the shopping credit. That's about 90 percent of the shopping credit available.

PacifiCorp - Business customers with loads larger than 30 kW and less than 1,000 kW are eligible. Customers participating in the Kick-Start Program are *not* eligible. Customers may receive the credit for up to three years, as long as the customer continues receiving service from an alternative supplier. As of March 2005, five customers and 18 aMW of load are receiving the shopping credits.

What are the requirements for the cost of service rate?

House Bill 3633, passed by the 2001 Legislature,⁴ ensures that all customers continue to have a "regulated, cost of service rate option" until the Commission finds "... that a market exists in which retail electricity consumers ... are able to:

- (A) Purchase supplies of electricity adequate to meet the needs of the retail electricity consumers;
- (B) Obtain multiple offers for electricity supplies within a reasonable period of time;
- (C) Obtain reliable supplies of electricity; and
- (D) Purchase electricity at prices that are not unduly volatile and that are just and reasonable."

Cost of service is the default rate for customers who do not select direct access service, a Standard Offer rate or another pricing option.⁵ The Commission has some flexibility to

³PGE adds a BPA wheeling charge to its market-based rate options. This cost is included in the energy charge for the cost of service rate.

⁴See ORS 757.603.

determine the type of cost of service rate the utilities provide. The Commission may prohibit or otherwise limit the use of a cost of service rate by consumers returning from direct access service.

PGE customers that opt out of the cost of service rate for the year may not be served under that rate until the next service year, and they must provide the required notice.

PacifiCorp customers choosing the annual opt-out can return to the cost of service rate the next calendar year with the required notice, without making any payment. Or a customer can return during the opt-out period by making a buy-back payment. It compensates the utility for any increased cost of serving the customer due to an increase in market price, compared to the market price used to determine the customer's transition credit. The returning service payment is 110 percent multiplied by the following amount:

Customer's expected remaining monthly usage for the transition adjustment period X (Current forward market price - Forward market price used to determine the transition adjustment)

How are the benefits and costs of competitive retail markets allocated?

The electric industry restructuring law requires the Commission to take into account whether customers choosing alternative suppliers helps or harms utilities and ratepayers. Resources the utility acquired in part to serve customers that choose an alternative supplier may not be needed to serve customers who continue to buy energy from the utility. Selling that excess energy in the market may be a cost or benefit.

"Transition adjustments" assign these costs or benefits to customers choosing an alternative supplier, rather than shift them to remaining customers.

By law, Oregon utilities must continue to offer all customers a cost of service rate – including those who have chosen an alternative supplier. Therefore, utilities use *annual* valuation rather than one-time valuation to calculate transition adjustments.⁶ The utilities publish transition adjustments for the opt-out period along with the cost of service rates. The adjustment applies to monthly bills and may be a charge or a credit.

- *PGE* - An annual Resource Valuation Mechanism determines the transition adjustments for long- and short-term resources for the next calendar year. These credits or charges represent the difference between forward market prices adjusted for delivery to PGE's system and the expected cost of power from long- and short-term resources delivered to its system. Customers can opt out of short-term resources with 12 months' notice.

For PGE's minimum five-year opt-out, there was an equal transition *charge* each of the first five years for service beginning in 2003. For service beginning in 2004 or 2005, the transition adjustment over the first five years is a declining *credit*. There are no transition adjustments after the five-year service period. For the three-year opt-out, PGE offered a transition *credit* for service beginning 2005.

⁵For example, PGE's two-part real-time pricing or the time of use and renewable resource options for small business customers.

⁶For the Kick-Start program, PacifiCorp calculates the transition adjustment at the customer's request.

- *PacifiCorp*- Since direct access began, the company has calculated the annual transition adjustment as the forward market price at Mid-C minus the company's cost of service energy rate, minus the cost of delivering power from PacifiCorp's system to Mid-C.

In September 2004, the Commission ordered PacifiCorp to adopt interim revisions to its transition adjustment calculation. The interim annual transition adjustment is the forward market price at Mid-C minus the company's cost of service energy rate, plus avoided line losses and an adder of \$1.40 per MWh. The adder represents the additional value from PacifiCorp responding to the loss of direct access load at four trading hubs, rather than just at Mid-C. The interim revisions are in effect for 2005.

The Commission further ordered PacifiCorp to propose a permanent mechanism for calculating transition adjustments. The company proposes in its recently filed rate case to use its GRID production cost model to estimate the effect of customers choosing direct access on PacifiCorp's costs and revenues. The analysis produces a weighted impact price that takes into account the company's forecasted changes in purchases, sales and power plant operations. The proposed annual transition adjustment is the weighted impact price minus the cost of delivered power from PacifiCorp's resources. The new adjustment mechanism will be in place by fall 2005 for the 2006 opt-out period.

When can customers choose an alternative supplier?

PGE and PacifiCorp must announce transition adjustments for the next calendar year on November 15 of each year (or the next business day if that date falls on a weekend or legal holiday). Utilities must give customers at least five business days after this date to choose an alternative supplier for the next year or a Standard Offer rate, which allows them to choose an alternative supplier later in the year.

PGE has given customers a one-month enrollment window for its multi-year opt-out programs. For service beginning calendar years 2004 and 2005, the enrollment window was the month of September.

Eligible PacifiCorp customers can enroll in the Kick-Start program at any time.

How much notice do customers have to give the utility?

Customers of both utilities must give notice mid-November each year⁷ if they do not want to continue on the cost of service rate for the next calendar year.

PGE customers must provide 12 months' notice to opt out of short-term utility resources and avoid the transition charge (or credit) for those resources.⁸ Customers choosing the minimum five-year opt-out must provide two years' notice to return to cost of service.

What happens if the customer's alternative supplier can no longer serve them?

PGE - Customers are served under "emergency default service" when the company has not been given at least 10 business days' notice that the utility needs to provide energy

⁷PGE offered an additional opt-out in 2004 for the last six months of the year.

⁸Short-term resources are defined as all generating plants and power purchases other than those with an initial term longer than five years, except BPA Subscription Power.

service. The energy charge is 125 percent of the Dow Jones Mid-C daily on- and off-peak firm price index, plus wheeling and transmission line losses. The customer begins service under the Standard Offer five business days after the initial purchase of emergency default service.

PacifiCorp – Emergency default service starts when the utility becomes aware that the customer is no longer receiving service from its alternative supplier. The energy charge is 125 percent of the Dow Jones Mid-C daily on- and off-peak firm price index, plus line losses and charges for ancillary services. The customer begins service under the Standard Offer five business days after the initial purchase of emergency default service.

Are utilities required to sell their power plants?

No. However, Oregon Administrative Rules⁹ prohibit utilities from putting new generating resources into rate base and require that costs for new generating resources be included in rates at market prices. The Commission, however, may grant a utility's request for a waiver of this requirement. The Commission is investigating¹⁰ whether it should retain a market standard for ratemaking treatment of new resources — and how that standard should be defined — or whether it should return to its longstanding, cost-based ratemaking treatment.

⁹OAR 860-038-0080(1)(b).

¹⁰The investigation (UM 1066) is now in abeyance.