

## Stable Rate Renewable Portfolio Option Pilot – Q&A

### **What is Schedule 9 Stable Rate Pilot?**

Stable Rate pilot is a new renewable portfolio option offering rate stability and green attributes over a five year period for participating residential and small non residential customers.

### **Why offer a Stable Rate renewable pilot?**

Renewable power market development plays an integral part in increasing renewable power supplies in the region. PGE experienced significant milestones in developing the local market ranking No.1 in the nation in 2005 (for number of residential customers) with a sign up rate of 5.3% of its customer for its renewable offerings. Market research has identified a significant portion of PGE's non-participating residential customers (5-7%) as interested in enrolling in a wind power option that mitigates the price volatility typically associated with resources using fossil fuels.

PGE's current Schedule 9 Pilot will "test" the market to determine the potential of a rate stabilized wind power offering to residential and small non-residential customers. If successful, it would be PGE's intent to expand the offer, making it available to more customers and possibly other customer groups.

### **Are there enrollment limitations?**

Yes, the pilot is limited to 5aMW (43,800,000 kWh) estimated annual load from residential and small non residential customers. Customers may only sign up for the pilot for a period of a year between January 1 and December 31, 2007. In addition, the pilot is only available to customers with good credit history as described in Special Condition 5 of the proposed tariff sheet. These enrollment limitations are necessary to limit possible risk exposure to the company and other non-participating rate payers.

### **What are the renewable features of the pilot?**

PGE will dedicate and retire Tradable Renewable Certificates (TRCs) received from Klondike 2 power purchase agreement (PPA) on behalf of customers participating in the pilot. In addition, participating customers will contribute 0.3 cents per kWh to a Wind Development Fund which will be used for development of new wind projects in Oregon.

### **How does the pilot compare to current portfolio offerings?**

Our current renewable portfolio offerings consist of a premium that is added to the annual cost of service rate. The premium varies from a fixed charge to a volumetric adder or a combination of both. It covers the cost of providing the offering and the associated green tags. Even though the price of the premium has not changed over the past several years, our cost of service rate has fluctuated.

This pilot will offer both, a static premium and a static cost of service component combined into stable rate. In structure the pilot will be similar to our current offers, cost of service component and premium, with the only difference that neither of these components will change over the next five years.

### **What is the price for the product and how was it determined?**

For residential customers the stable rate price is set at 9.35 cents per kWh and for small non-residential customer it is set 10.10 cents per kWh. Both price points include 0.03 cents per kWh contribution to the Wind Development Fund and 0.45 cents administrative charge. The 9.35 cents per kWh does not include the Basic Charge.

The goal of the price points is to keep PGE revenue neutral throughout the pilot. Please see pricing work papers Attachments B1-B6 for detailed calculations. First, we assume the level of COS unbundled price components over the life of the pilot for both residential and non-residential customers (Attachment B-6). We then compare Klondike 2 Energy cost with the projected COS energy rates and calculate the difference between the two (Attachment B-5, part A). We design the stable rate for residential and small non-residential customer class by averaging five year projected unbundled cost of service cost components, Klondike 2 energy rate, and COS adder (Attachment B-5, part B).

### **Please explain the COS adder used in the design of stable rate?**

Since Klondike 2 energy costs are cheaper than the proposed COS rates, PGE is unable to base the pilot on a dedicated wind resource such as Klondike 2 without harming non-participating customers. This makes the adjustment to COS rate a necessity. Also an elevated stable rate is more in line with actual wind energy costs over the next five years, making it a better simulation of a product that is based on incremental wind resource.

### **What is the purpose of the Stable Rate Balancing Account?**

Stable Rate balancing account captures any revenue variances in comparison to cost of service rates. Its primary purpose is to ensure that the company does not collect more or less revenue than it otherwise would have collected if participating customers were on cost of service rate and remains revenue neutral.

The principle of revenue neutrality is used in other portfolio option designs as well. For example the Time of Use portfolio option provides PGE with an opportunity to recover lost revenue in comparison to cost of service rates through its annual RVM update.

Balance accumulating in the stable rate balancing account will earn interest at the company's authorized rate of return. Based on current assumptions including interest earned, we project that the Company will refund about \$22,136 to Schedule 7 and Schedule 32 customers at the end of the pilot. Please see the pricing work papers for detailed calculation.

### **How does the stable rate price compare to the cost of service rate and other renewable portfolio option rates?**

Based on our current assumptions, the Company projects that proposed Schedule 9 rates will be higher than their respective cost of service counterparts throughout the life of the pilot. However, the difference between stable rate and cost of service rate declines over time. Pricing work paper XX indicates that the implied premium over COS rate starts out at 17% in the first two months of the pilot and declines to 4.6% by the final year of the pilot for residential customers.

This spread is reasonable and advantageous when compared to the current spread between COS rates and portfolio options. For example, under proposed January 2007 prices, a customer that uses 1000 kWh per month would pay about 10% premium for the Renewable Usage (Green Source) option. With the upward trend in COS rates, it is highly probable that Schedule 9 renewable portfolio rate will be considerably cheaper than Renewable Usage starting in 2009.

**Will supplemental adjustments apply to Schedule 9 customers?**

Yes, all supplemental adjustments that otherwise would apply to Schedule 7 and 32 customers are also applicable to Schedule 9 customers. These supplemental adjustments are bundled into the stable rate for both residential and non-residential customers, except Schedule 108 and Schedule 115. Also any current or future franchise fees and government taxes will be applied separately to the bill.

**What is the purpose of Wind Development Fund and why is it necessary?**

The purpose of the Wind Development Fund is for participants to contribute to building local renewable wind projects. By contributing to local wind development projects, participants incrementally reduce the cost of future wind resources for non participating customers and for future portfolio option offerings. Funds deposited in the Wind Development will accrue interest at the company's authorized rate of return. In addition, PGE will report to the Commission annually on Wind Development Fund activity. Please see the Wind Development Fund section of the tariff and Wind Development Fund Statement of Intent (Attachment XX) for reference.

**What is the role of Klondike 2 green tags in the pilot offering?**

Klondike 2 green tags will be one of the renewable features of the pilot, making the pilot a "renewable" product. Currently, all PGE customers benefit from them, but commencing with the pilot, an amount associated with the participation rate will be dedicated to stable rate customers only. This is a necessary short term subsidy because it allows the participating customers to contribute to the Wind Development Fund (WDF). The WDF in turn will benefit all PGE customers through the development of additional local wind resources.

If participating customers were forced to pay for Klondike 2 green tags up front, the price points for the pilot would be too high and out of reach for participating customers. In fact, the short term commitment of Klondike 2 tags by non-participating customers is very similar to a dividend re-investment program where, the current stream of Klondike 2 green tags will create an additional stream of future green tags, over time increasing the total amount of green tags in PGE's system.

**Do you foresee any adverse financial impacts on non-participating customers?**

Non-participating customers could be impacted positively or negatively by the state of the balancing account. Based on our current assumptions, we estimate that the balancing account will accrue \$22,136 in revenue that will be refunded to all schedule 7 and 32 non-participating customers. Variation in any one or all of our assumptions could have an adverse impact on non-participating customers.

**How will the pilot transition into a standard product offering?**

Future Stable Rate (SR) offers would be supplied by adding incremental resources to a planned PGE development (e.g. Biglow Canyon), using as “seed money” the Wind Development Fund (WDF). For example, during the “Phase I” build out of PGE’s proposed Biglow Canyon wind farm WDFs would be used to increase the output of the initial phase from 126 to 141 MW.

Under this scenario, the incremental generation would be marketed during the first 5 years to a new group of SR customers with all RECs retired behalf of participants. At the end of the term for this group of customers this incremental generation and the associated RECs would be rate-based on behalf of all PGE customers.

In the event that the Preferred Scenario is not feasible, several alternative scenarios would be considered. The first of these would involve working with the Energy Trust of Oregon (ETO) to develop new renewable projects for SR program supply. The WDF could be used to cover the above market costs for the energy and RECs during the first five years of a contract. ETO funding would then cover the above market costs of energy and RECS during subsequent years, which would become part of the supply portfolio for all PGE customers.

Another option would be to enter into a fixed price power purchase agreement for the output (energy and RECs) of an existing local wind project for a 5 year period, using the WDFs from this pilot to cover above market costs. Here utilizing the \$3/MWh premium paid by SR customers into the WDF would allow PGE to buy-down an above-markets costs of renewable generation over and above a PPA negotiated by PGE to meet an IRP target.

PGE might have the opportunity to enter into a short term PPA for the output of new projects purchased by cooperative groups of public utilities or community wind projects. Often these projects are over-built, with the intent of their sponsors’ loads ‘growing into’ the project’s output.

Alternately, there may also be new merchant renewable projects coming on line in the next couple years that would be willing to enter into such an arrangement. In such cases, there may be blocks of power available for additional SR offerings. Examples of such wind projects are the White Creek project in Klickitat County, and the Nine Canyon project.

Finally, PGE could also look into opportunities for PPA’s with BPA. BPA will likely be facilitating investment in renewables for their public utility customers, who as mentioned above will need to grow into the full output of these projects.