

PGE Advice No. 08-14
Work Papers

Portland General Electric

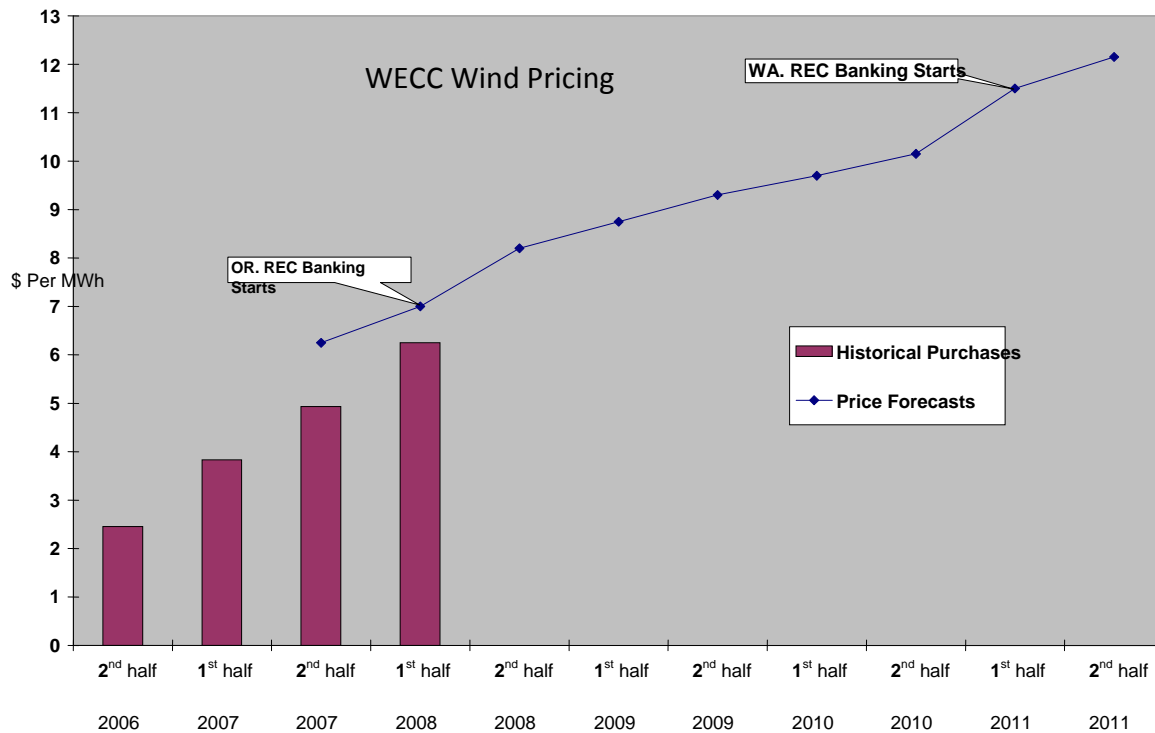
Evaluating Effects of Renewable Energy Credit (REC) Price Increases on Portfolio Program

Within the Western Electric Coordinating Council (WECC)

Section 1 – Non-WREGIS Registered REC’s

On May 20th, the Oregon Public Utility Commission (OPUC) approved a Portfolio Options Committee (POC) recommendation to waive the requirements for utilities to purchase only Western Regional Energy Generation Information System (WREGIS)-registered Renewable Energy Certificates (RECs). While this measure did provide additional opportunities in terms of REC availability, its effect on pricing was minimal with non-WREGIS tracked RECs trading at a \$0.10-0.30 discount. Western Energy Coordination Council (WECC) REC markets remain tight and several drivers are keeping supply out of the market. First, the availability of infinite banking of RECs for the Oregon Renewable Energy Standard (RES) has resulted in some generators staying out of market, as they feel there is more potential upside to be had. Second, California continues to be a focal point of the WECC market, as utilities continue to aggressively seek out bundled Power Purchase Agreement’s (energy and RECs) and the California PUC continues to escalate discussions in regards to accepting unbundled RECs for RES compliance.

Section 2 – 5-year Trend for WECC REC’s



Section 3 – Steps Taken to Mitigate Effects of Rising REC Prices

Wind Development Fund

Since 2002, PGE has set aside a portion of the revenue from Green Source (GS) customers for use as a future hedge against potential price volatility in the REC markets. These funds designated as the GS Wind Development Fund (WDF), were alternatively to be used in the development of new wind projects for voluntary customers should they not be needed for hedging REC purchases.

Increased volatility in the REC markets has significantly increased REC prices since 2002, when the option was launched. Given current REC prices and the WDF balance of \$1,007,625.00 as of 7/1/08 PGE and Green Mountain would expect to exhaust the WDF sometime in early 2009.

At that point costs for RECs required to meet GS customer loads would exceed available GS revenues.

Section 4 – National Green Program Pricing vs. Portfolio Programs

The pricing for PGE Green Source product has remained unchanged since its inception in 2002. According to 'Trends in Utility Green Pricing Programs (2006), published by National Renewable Energy Labs (NREL), the PGE Green Source price has been significantly lower than national averages for utility green pricing programs.

From 2002-2006, PGE Green Source was 62-71% lower than the national *average* price.

No comparative data exists for 2007-08.

Section 5 – Possible Solutions

PGE and Green Mountain Energy are conducting research with Green Source customers to be completed this August. The overall objective of this research is to provide guidance on the appropriate form/messaging for a potential Renewable price increase. There are two alternatives PGE is considering for the price increase:

1. Maintaining the same product structure (i.e., 100% offset of a customer's energy consumption) and charging a higher rate
2. Maintaining the same rate but decreasing the amount of the customer's load that is offset with renewable energy i.e. reducing renewable content to less than 100%

This research will provide information on customer interest in each option and potential for existing customers to leave the program.

In addition, this research will provide guidance on effectively communicating pricing changes to customers. For example answer questions such as:

1. How are customers likely to react to this change?
2. What messages and/or explanations are likely to mitigate adverse reaction? (This will include testing alternative “appeals”)
3. How should PGE communicate this change and other changes that may come in the future?

A report on the outcomes of this research is expected to be delivered to the POC during the next scheduled POC meeting.

PGE Green Source Price Increase Research

Prepared for:



August 21, 2008

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Background

Research Objectives

- Assess interest level and potential churn impact among Green Source customers to two alternative price increase options
- Determine appropriate messaging to communicate and support the price increase decision

Nature of Interview

- Phone survey lasting approx. 10 minutes
- Conducted in July-August, 2008

Customers Surveyed

- 300 Residential Green Source customers
- 50 Small Business Green Source customers
- Randomly selected from PGE database to provide a representative sample

Summary of Findings

- 1. Most customers feel that their experience with PGE met/exceeded expectations.*
- 2. Green Source customers continue to feel that the PGE Renewable Energy program represents good value.*
- 3. A large proportion of customers report being likely to recommend PGE Renewable Energy to others.*
- 4. Among both residential and business customers, there is very clear preference for maintaining 100% renewable content and paying a higher price to do so. Customer churn will be minimal under this scenario.*
- 5. Most customers do not know that PGE cannot make any profit from selling renewable energy and that the price for renewable energy has not increased since 1999. Customers would find it helpful to have this information.*
- 6. In general, most customers found all three messages regarding the price increase to be helpful.*
- 7. Most customers prefer to know the amount (extra dollars/month) rather than the rate (cents per kWh) of the price increase. A "special letter in the mail" and "bill message" are the preferred communication modes.*

Key Findings

Most customers feel that their experience with PGE met/exceeded expectations.

Perception of PGE Renewable Energy Program

	<u>Residential</u>		<u>Business</u>	
<u>Percent Mentioning Program:</u>	2008	2007	2008	2007
Exceeded Expectations	8%	7%	4%	9%
Met expectations	88	86	96	87
Failed to Meet Expectations	4	7	-	4

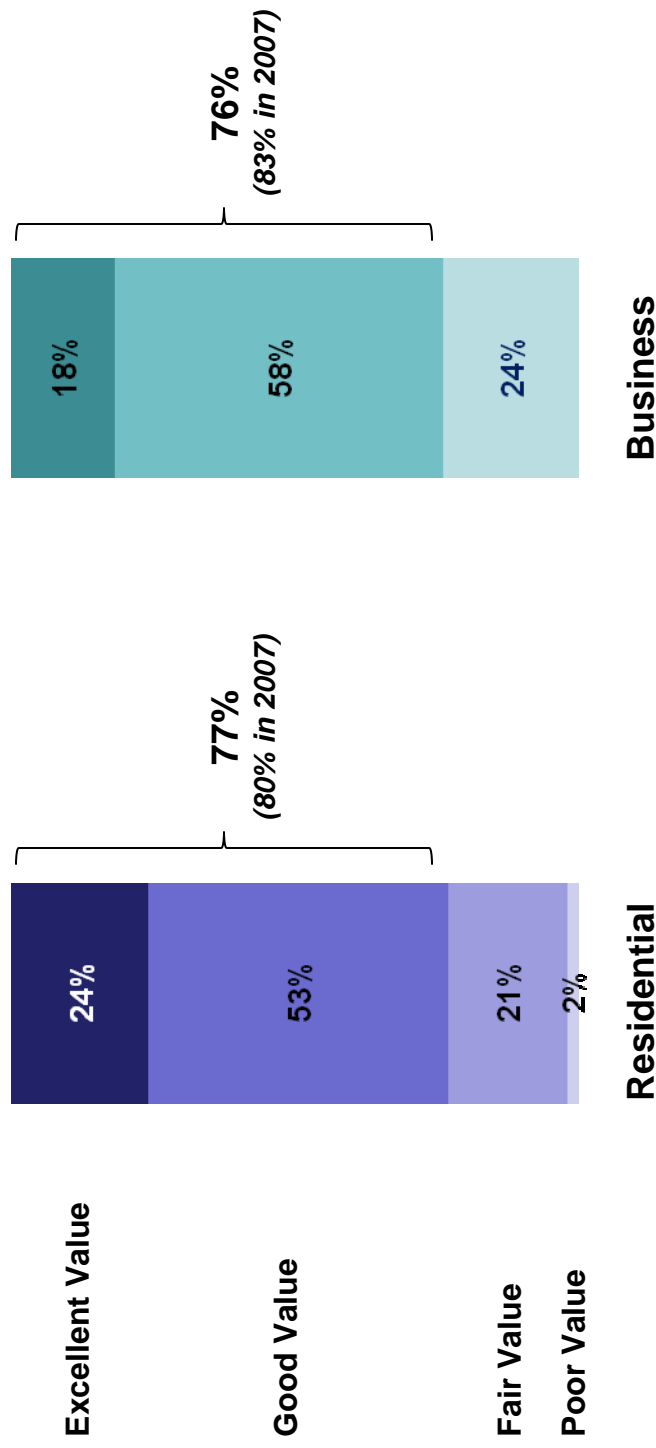
Please note: Due to slight differences in sampling/survey methodology between 2007 and 2008, the numbers across these two years are not strictly comparable.

Copernicus® Q3. Overall, has your experience with the PGE renewable energy program...?

Key Findings

Green Source customers continue to feel that the PGE Renewable Energy program represents good value.

Perception of PGE Renewable Energy Program

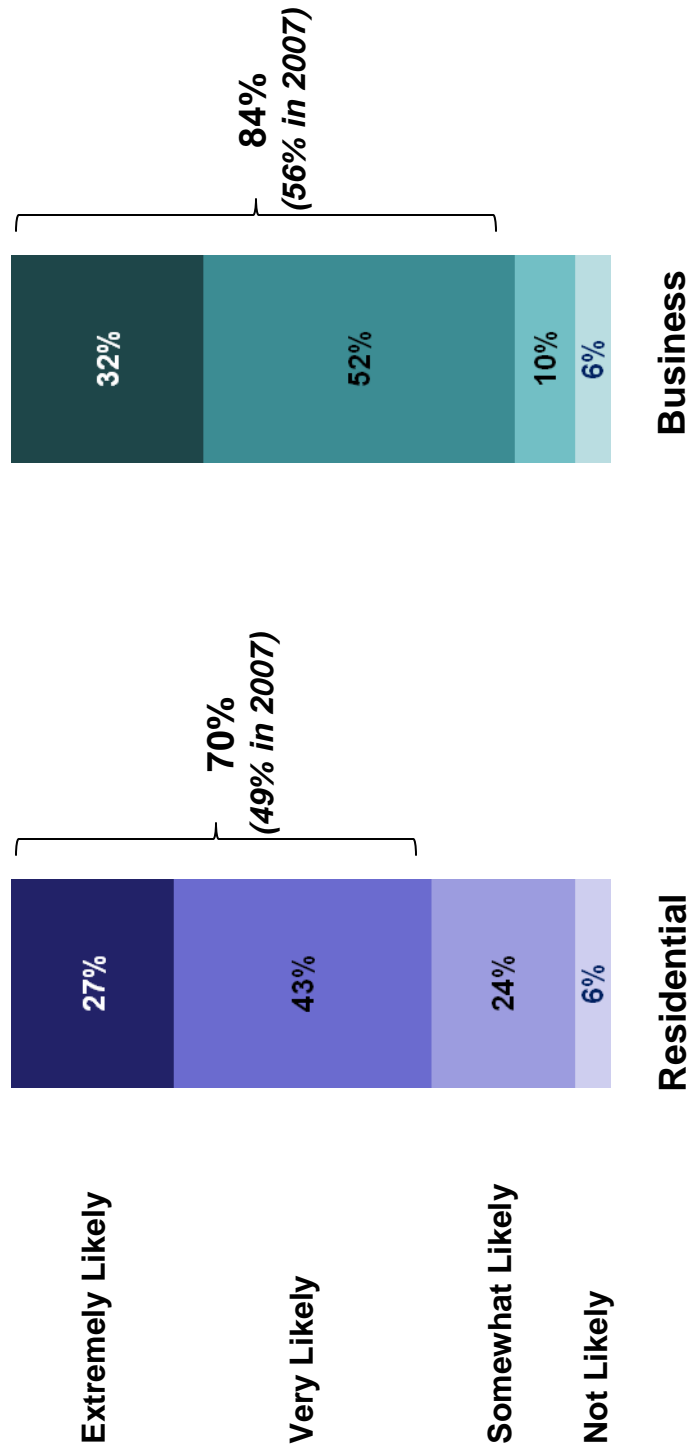


Please note: Due to slight differences in sampling/survey methodology between 2007 and 2008, the numbers across these two years are not strictly comparable.

Key Findings

A large proportion of customers report they are likely to recommend the PGE Renewable Energy Program.

Perception of PGE Renewable Energy Program

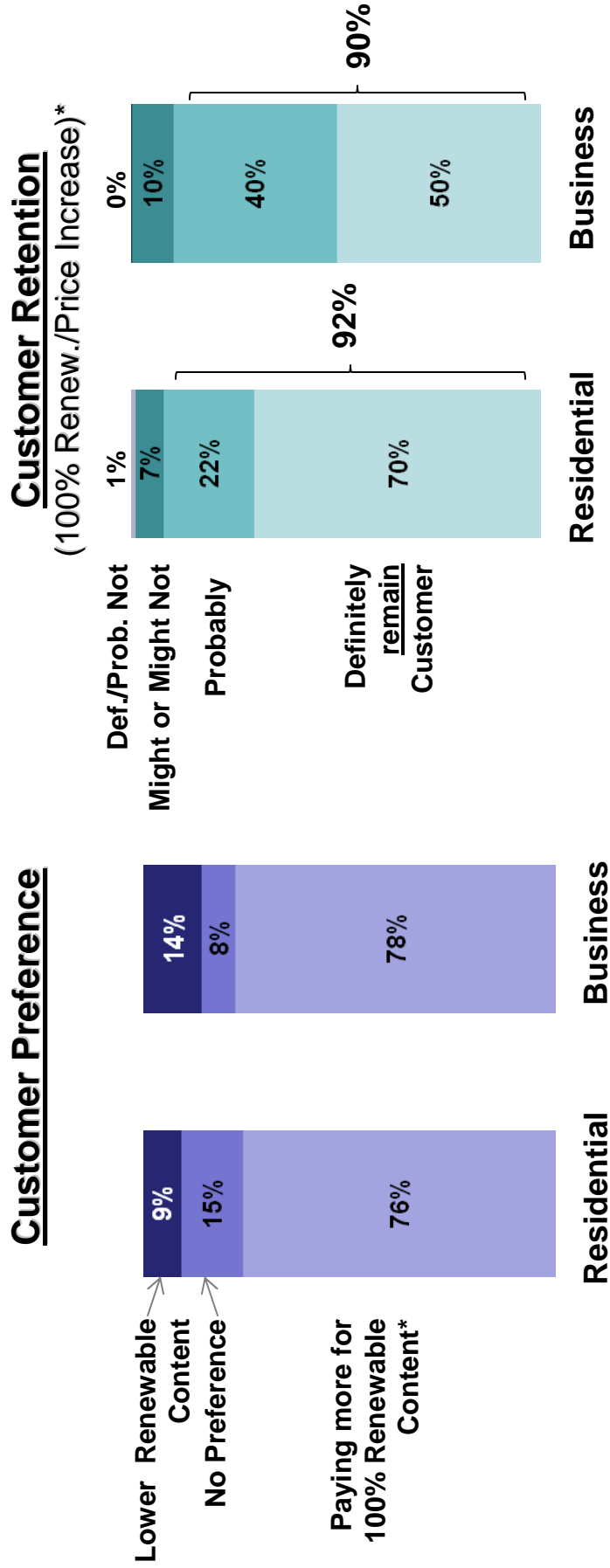


Please note: Due to slight differences in sampling/survey methodology between 2007 and 2008, the numbers across these two years are not strictly comparable.

Copernicus® Q5. How likely are you to recommend the PGE Renewable Energy Program to others in the future?

Key Findings

Among both residential and business customers, there is very clear preference for maintaining 100% renewable content and paying a higher price. Minimal customer churn is anticipated.



* Customers were told approximately how much more they will have to pay each month; estimate was based on a \$0.004 per kWh rate increase to 0.012; this increase was applied to each customer's average monthly electricity consumption over the past year.

Q15. Which of these options do you prefer?

Copernicus® Q14. Assuming this change happens, how likely are you to continue being a PGE Green Source customer?

Key Findings

Most customers do not know that PGE does not make any profit from selling renewable energy and that the price for renewable energy has not increased since 1999. Customers would find it helpful to have this information.

	<u>Customer Knowledge</u>		<u>Perception of Information being Helpful*</u>	
	Residential	Business	Residential	Business
Know that PGE does not make any profit from selling renewable energy	21%	14%	88%	92%
Know that PGE has not raised the price of renewable energy since 1999	12%	8%	93%	88%

* Percent mentioning information will be extremely/very/somewhat helpful

Q10. PGE, by law, does not make any profit from selling Renewable Energy. Were you aware of this prior to my phone call?

Q11. Overall, how helpful is it for you to know that PGE does not make any profit from selling Renewable Energy...?

Q12. PGE has not raised the price of Renewable Energy since first offering it in 1999. Were you aware of this prior to my phone call?

Q13. Overall, how helpful do you find this information...?

Key Findings

In general, most customers found all three messages regarding reasons for the price increase to be helpful.

Perception of Information Being Helpful*

	Residential	Business
The rising cost of building new wind farms including materials like wind turbines, concrete, steel and labor has increased the cost of Renewable energy	84%	84%
As states around the U.S. pass laws requiring mandated levels of renewable energy, greater demand has increased the cost of Renewable energy	75%	86%
Energy rates have risen dramatically, regardless of generation source, which means the cost of renewable energy has also increased	74%	70%

* Percent mentioning information will be extremely/very/somewhat helpful Q7, Q8, Q9. Overall, how helpful do you find this information?

Key Findings

The majority of customers would prefer to know how much (extra dollars/month) they would have to pay for Green Source. “Special letter in the mail” and “bill message” are the preferred communication modes.

Preferred Communication Method

Clarity of Communication

	Residential	Business
Cost for Green Source would increase by _dollars per month	68%	58%
Rate for Green Source would increase by approximately half a cent per kWh, from 0.8 cents to 1.2 cents	16%	30%
No opinion	17%	12%

Preferred Communication Mode

	Residential	Business
Bill Message	48%*	36%
Special Letter	34%	46%
Article in PGE Newsletter	10%	4%
Article in Renewable Power Newsletter	8%	14%

* Among Residential customers, 48% (Bill Message) is significantly higher than 34% (Special Letter).

Q17a. Should the rate for Green Source change, which of the following ways would be the clearest way to communicate this change?
 Q17b. And, how would you prefer to learn about changes to PGE’s Green Source Product? Through...

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PGE Green Source Price Increase Request

Portfolio Options Committee

September 10, 2008

PGE Green Source Price Increase Rationale

	2008	2009
Project REC Sales	458,000	500,000
Green Source REC Revenues (\$3.52/REC)	\$1,612,100	\$1,760,000
REC Price Forecast	\$5.43	\$8.50
Projected REC Costs	\$2,486,715	\$4,250,000
Wind Development Fund	\$1,038,000	\$163,385
Reduced Marketing Starting 2009		\$500,000
REC Surplus/Deficit	\$163,385	(\$1,826,615)
Increase Needed to Offset Program Loss		\$.0037 cents/kWh

In order to cover anticipated REC costs in 2009, the price per kWh moves from \$.008 cents per kWh to \$.012.

How is the money spent?

Allocation Category	Current Allocation	2009 Proposed Allocation
REC's *	About 44%	60-70%
Outreach/Education/Administration	About 56%	28-38%

* All revenues not allocated to REC purchases are deposited into the Wind Development Fund.

Outreach/Education programs	\$ per MWh devoted to "marketing"*	\$ per MWh devoted in 2009	Participation rates
PGE Renewable	\$4.48	\$3.50-4.00	8.4%
National Average	\$4.87		2%

* Costs include PGE administrative, GME customer acquisition (sales agents, sponsorships, marketing materials, etc.) and GME administrative (office, equipment manager, analyst, biodiesel van, corporate overhead, etc.)

Green Source Premium Increase for Residential and Business Customers

The average residential customer will pay a difference of \$3.15, representing less than a 4% overall increase.

The average small business customer will pay a difference of \$6.68.

