

Competitive Power Market for Oregon Nonresidential Customers

Background

The Oregon Legislature passed electric industry restructuring in 1999 (Senate Bill 1149). The law allows all nonresidential customers to choose an alternative electricity supplier or a market-based (Standard Offer) option from the utility. The 2001 Legislature changed the effective date of these provisions to March 1, 2002 (House Bill 3633).

The Commission is charged with facilitating the development of a competitive market while minimizing the effect on customers that remain on the utilities' cost of service rate:

- ORS 757.646(1): The duties, functions and powers of the Public Utility Commission shall include developing policies to eliminate barriers to the development of a competitive retail market structure.
- ORS 757.607(1): The provision of direct access to some retail customers must not cause the unwarranted shifting of costs to other retail electricity consumers of the electric company.

Customers began choosing a Standard Offer rate when it was first made available. The first customers choosing an alternative supplier began receiving direct access service in January 2004.

Participation today

	Direct Access			Market-Based Rates (Standard Offer)		
	% of non-residential load	Number of accounts (meters)	Load	% of non-residential load	Number of accounts (meters)	Load
PGE	6.4%	120*	86 aMW	3.6%	69*	48 aMW
PacifiCorp	0	0	0	0.3%	63**	3 aMW

*Seven PGE customers on direct access; 49 on Standard Offer

**38 PacifiCorp customers on Standard Offer

Participation expected in 2005

	Direct Access			Market-Based Rates (Standard Offer)		
	% of non-residential load	Number of accounts (meters)	Load	% of non-residential load	Number of accounts (meters)	Load
PGE	10.4%	272*	137 aMW	0.6%	64*	8 aMW
PacifiCorp	2.1%	74**	18 aMW	0.2%	79**	2 aMW

*24 PGE customers on direct access; 37 customers on Standard Offer

**Five PacifiCorp customers on direct access; 45 customers on Standard Offer

Direct access options

All nonresidential customers have at least one opportunity a year to opt out of the cost of service rate on an annual basis. Eligible size customers can opt out for multiple years. 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. In addition to the annual opt-out, the companies have offered the following options:

PGE

- The company has offered a minimum five-year cost of service opt-out once each year, beginning with service in calendar year 2003. Service under this option is year to year after five years. Customers may terminate the agreement after the minimum term with two years' notice. Four accounts, representing two customers and 11.25 aMW of load, have enrolled to date. Only one of the customers is receiving service from an alternative supplier; the other is on a Standard Offer rate. No customers enrolled for the five-year opt-out that starts in 2005.
- The company offered in fall 2004 a new three-year opt-out designed to match the contract term some suppliers are offering. No customers enrolled.
- The company offered eligible-size customers an additional, mid-year opt-out for the last six months of 2004. No customers participated.
- Only customers with energy usage of at least 1 aMW qualify for 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.) Multi-year opt-outs are limited to a total of 300 aMW of load.
- 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, losses, a wheeling charge based on monthly demand, and transmission charges per the company's OATT.
- PGE is exploring a possible opt-out from the Port Westward facility that is under construction. Such an opt-out also could apply to other new long-term resources that the company acquires.

PacifiCorp

- Market Kick-Start Pilot Program - Customers with a demand of at least 2 MW can 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. No customers have yet enrolled.

The program allows alternative suppliers to report monthly to PacifiCorp and PUC 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 (at least 30 kW) through a balancing account.

Standard Offer

All nonresidential customers have the option of a market-based rate from their utility. Customers must notify the utility of their choice of a Standard Offer option within the November enrollment period. (See *Enrollment window*, below.)

PGE - Large customers (at least 30 kW) can choose:

- *Daily* Dow Jones Mid-C on- and off-peak firm price index¹

¹PGE 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.

- *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

The Standard Offer option for PGE's small nonresidential customers is daily pricing.

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

Requirement for cost of service rate

House Bill 3633, passed by the 2001 Legislature,² ensures that nonresidential consumers 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 consumers who do not select direct access service, a Standard Offer rate or another pricing option.³ The Commission has some flexibility to 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)

Emergency default service

PGE - Customers are served under this service when the company has not been given at least 10 business days' notice to switch the customer to a Standard Offer rate. The energy charge is 125 percent of the Dow Jones Mid-C daily on- and off-peak firm price

²See ORS 757.603.

³For example, PGE's two-part real-time pricing or the time of use and renewable resource options for small business customers.

index, plus wheeling and grid 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 grid 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.

Suppliers and aggregators

Eight electricity service suppliers are certified and four aggregators are registered with the PUC.

Three electricity service suppliers are registered to do business with PGE: Constellation NewEnergy, EPCOR and Sempra Energy Solutions. PacifiCorp recently recertified Sempra for the utility's service area and expects to certify EPCOR soon.

Enrollment window

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 nonresidential 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.

Notification requirements

Customers of both utilities must give notice mid-November each year⁴ 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.⁵ Customers choosing the minimum five-year opt-out must provide two years' notice to return to cost of service.

Shopping credits

A shopping credit of 0.5¢/kWh is available to eligible customers on a first come, first served basis. The credit is limited to the first 10 percent of qualifying consumer load. Customers may opt out of cost of service conditionally upon confirmed reservation of the shopping credit. The credits expire Dec. 31, 2006.

PGE - Nonresidential customers larger than 30 kW that used less than 1 aMW at a site the prior calendar year are eligible. As of September 2004, some 116 accounts were receiving the shopping credit, representing six customers and 34.8 aMW of load. That's

⁴PGE offered an additional opt-out in 2004 for the last six months of the year.

⁵Short-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.

about half of the load eligible for the credit. About 90 percent of the shopping credit is subscribed for 2005.

PacifiCorp - Nonresidential 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. No customer opted for an alternative supplier in 2004, so no customer received shopping credits. All but one account that *PacifiCorp* expects will be served by an alternative supplier in 2005 is eligible for the shopping credit.

Generating resources

Oregon utilities are not required to sell their generating assets. However, Oregon Administrative Rules (OAR 860-038-0080(1)(b)) 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 rule does not specify the method for determining market prices. The Commission is investigating (in UM 1066) 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.

Transition adjustments

The intent of transition adjustments is to assign to customers choosing an alternative supplier the resulting costs or benefits, rather than shift them to customers who remain with regulated utility service.

By law, Oregon utilities must continue to offer all customers a cost of service rate. Therefore, the utilities use annual valuation rather than one-time valuation to calculate annual transition adjustments.⁶ The utilities publish the resulting 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. Nonresidential 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.

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.

⁶For the Kick-Start Program, *PacifiCorp* calculates the transition adjustment upon the customer's request.

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 go into effect for the 2005 opt-out period.

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.