

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 15, 2003

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  May 1, 2003

DATE: April 8, 2003

TO: John Savage through Lee Sparling and Jack Breen III

FROM: Janet Fairchild

SUBJECT: PACIFIC POWER & LIGHT: (Advice No. 03-002) (1) Requests approval for a reduction in the price for a new renewable energy tariff attributable to the changes in the current energy market; (2) makes a housekeeping change; and (3) renames the Schedule 212 as Fixed Renewable.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve Advice No. 03-002, as filed on February 26, 2003, to become effective with service rendered on or after May 1, 2003.

**DISCUSSION:**

On February 26, 2003, Pacific Power & Light (PPL) filed Advice No. 03-002 to become effective with service rendered on or after May 1, 2003. The filing was made in accordance with ORS 757.205, *Filing Rate Schedules with the Commission*.

As described in PPL's advice letter, the purpose of the filing is to:

1. Reduce the price charged for 100 kWh blocks of renewable energy resources,
2. Allow PPL to obtain renewable resources to fulfill the requirements of its Blue Sky tariffs with either bundled renewable resource purchases or with tradable renewable credits (TRC)s, and
3. Change the title of Schedule 212 from *Portfolio – Renewable Block Supply*, to *Portfolio – Fixed Renewable*.

The Renewable Northwest Project (RNP) filed comments regarding PPL's filing on March 28, 2003.

Price Reduction: PPL proposes to reduce the price of its Blue Sky offering for its residential and small nonresidential customers (via Schedule 212) and for its large nonresidential customers (via Schedule 270), from \$2.95 per 100 kWh block to \$1.95 per 100 kWh block. PPL presented cost and pricing analysis for the program at a

November 26, 2002 workshop. The analysis includes the cost of bundled renewable energy purchases as well as the cost of TRCs. Staff has reviewed the pricing analysis and finds that it is based on reasonable assumptions. PPL's analysis shows that the company can reduce its Blue Sky tariffed rate and still cover its program costs. Therefore, staff supports PPL's proposed price reduction.

Use of TRCs: Allowing the company to meet its obligation under the tariffs with either bundled energy purchases or TRC purchases will provide the flexibility to react to changes in the market for renewable resources. The company points out that the change *"is beneficial to the Company, as it allows for the more efficient balancing of purchases and sales and it will minimize the risk of not achieving a zero net gain or loss at the program life."*

In its advice letter, PPL explains that it will buy TRCs or bundled energy in the following preferential order, so long as the procurement will not result in an increase in price to the customer.

1. Local, newly developed wind farm output. For example, PPL plans to purchase the output of a 40 MW wind farm in Eastern Oregon being developed by the Energy Trust of Oregon (ETO).<sup>1</sup>
2. Local wind farm output with vintage attributes that comply with either the Blue Sky tariff standard, or the Renew 2000 standard, whichever is more stringent.
3. Output from newly installed wind farms located within the WECC.
4. Output from wind farms located within the WECC with vintage attributes that comply with the more stringent of the Blue Sky tariff or Renew 2000 for tag vintage.

RNP supports tariff language that allows for the purchase of either bundled renewable energy or TRCs and the company's procurement preference order. However, RNP also encourages PPL to invest in some local solar electric installations.

RNP also stresses that any TRCs purchased with the current Blue Sky surplus should be retired on behalf of the customers who have already paid into the program and not to supply future demand. PPL agrees with RNP's recommendation.

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<sup>1</sup> In follow-up conversations, staff verified that PPL understands that if the ETO sells the TRCs associated with the project to someone else, PPL would not be entitled to claim the green attributes of power it obtains from the project and that the company would not be able to use the output to satisfy the requirements of its Blue Sky tariffs.

Staff supports PPL's purchasing preference structure and its use of either bundled power purchases or TRC purchases, provided that TRCs purchased with revenues already collected from customers may not be used for future demand.

Schedule 212 Title Change: Changing the title of Schedule 212 from *Portfolio – Renewable Block Supply*, to *Portfolio – Fixed Renewable* brings the tariff title into conformance with the language used in portfolio marketing materials. Staff supports this change.

Steady-price Options: In its advice letter, PPL points out its commitment to explore the possibility of offering a steady-price option, in which a portion of the customer's bill would reflect the cost of a renewable product rather than the overall cost of service. RNP supports PPL's commitment, noting their preference for a stable rate product as opposed to the current price adder structure of the Blue Sky options.

Applicability of the Code of Conduct to Schedule 270: Pursuant to ORS 757.646, the Commission has implemented OAR 860-038-0500 through 0640 (Code of Conduct Rules). Staff and PPL agree that the Blue Sky option for residential and small nonresidential customers is not subject to the code of conduct because it is part of the portfolio of options offered pursuant to OAR 860-038-0220. However, staff and PPL disagree on whether this statute and the associated rules apply to the Blue Sky offering to large nonresidential customers.

Staff believes that a TRC sale to large nonresidential customers is a competitive offering since other providers can also sell TRCs in PPL's service territory. Therefore, in staff's opinion the statute and related administrative rules do apply to this offering. OAR 860-038-0500 states that the code of conduct rules were established to avoid potential market power abuses and cross-subsidization between regulated and unregulated activities during and after the transition to competition.

PPL believes that because the offering is tariffed, pursuant to ORS 757.205(1) it constitutes a regulated service, and therefore, cannot be considered a competitive service.

Staff and PPL agree that the proposed rate reduction and inclusion of TRCs as an alternative resource option is in the best interest of PPL customers. Therefore, the May 1, 2003 effective date for Advice 03-002 should not be delayed. However, it will not be possible to reach agreement on the applicability of the code of conduct to the Blue Sky offering for large nonresidential customers before that date. Staff asked PPL to include language on Schedule 270 to acknowledge that the service is subject to the code of conduct, or alternatively, to include provisions similar to those found on Portland

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General Electric's Schedule 54. Staff and PPL have not reached agreement on compromise language to be included in the tariff.

To facilitate continued negotiation regarding code of conduct provisions to be included on Schedule 270 without delaying the proposed rate reduction, PPL filed Advice 03-005 on April 4, 2003, to become effective July 1, 2003. Advice 03-005 includes two of the four special conditions staff believes are necessary to ensure that an unfair competitive advantage is not afforded to PPL in its offering of TRCs to large nonresidential customers. Staff and PPL will continue to work on compromise language pursuant to Advice 03-005. Staff appreciates the cooperative way in which PPL is working with staff to resolve these issues.

**PROPOSED COMMISSION MOTION:**

Pacific Power & Light's Advice No. 03-002, as filed on February 26, 2003, be effective with service rendered on or after May 1, 2003.

PPL Advice 03-002/JF