

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 20, 2003**

REGULAR X **CONSENT** **EFFECTIVE DATE** August 21, 2003

DATE: August 19, 2003

TO: John Savage through Lee Sparling and Jack Breen III

FROM: Janet Fairchild

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UE 152/Advice No. 03-12) Incorporates recommendations from the UM 1081 Direct Access workshops by adding a 2003 enrollment period for Schedule 483.

STAFF RECOMMENDATION:

Staff recommends that the Commission suspend Portland General Electric's Advice No. 03-12, as filed on July 25, 2003 for further consideration of the transition adjustment included in the filing.

DISCUSSION:

On July 25, 2003, Portland General Electric (PGE) filed Advice No. 03-12 to become effective August 29, 2003. The filing was made in accordance with ORS 757.205, *Filing Rate Schedules with the Commission*. As described in PGE's advice letter, the purpose of the filing is to incorporate recommendations from the UM 1081 Direct Access Workshops by adding a 2003 enrollment period for Schedule 483, Transmission Access Service – Large Nonresidential.¹ Schedule 483 is commonly referred to as the five-year opt out program or plan.

Changes proposed in this filing extend the five-year opt out program offered under Schedule 483 another year. Under the five-year opt out program eligible customers may leave the company's cost of service rate for a five-year period. They may return to the cost of service rate at the end of five years, provided two years notice is given to the company, or they may remain off of the cost of service rate with no additional transition charges.

¹ The UM 1081 workshops have consisted of a series of meetings attended by PGE and PacifiCorp, Electricity Service Suppliers (ESSs), customers, and staff from OPUC and the Oregon Office of Energy. The purpose of these meetings has been to determine how best to eliminate, or at least minimize identified barriers to the development of a competitive retail electric market in Oregon.

The filing establishes a declaration window of September 1 through September 30, 2003 for service to begin January 1, 2004. The filing also clarifies that, as in past years, the Part B adjustment² in Schedule 125 will apply to Schedule 483 enrollees who did not provide short-term resource notice during the prior year enrollment period. Specifically, customers who enroll in the five-year opt out in 2003 will be subject to Schedule 125 Part B adjustment if they did not provide PGE notice by the end of 2002 that they would be opting out of Part B in 2004.

Comments were received from EPCOR Merchant & Capital (US), Inc. (EPCOR) on Aug. 6, 2003. EPCOR challenges the forward gas prices used in PGE's cost support for the proposed zero transition adjustment and accurately points out that PGE's filing does not explain why it does not propose a one year only adjustment as discussed in the direct access workshops.

The Industrial Customers of Northwest Utilities (ICNU) filed a complaint regarding the filing on August 15, 2003. The complaint alleges that PGE has not demonstrated that the zero transition adjustment proposed in the filing is just and reasonable, or consistent with the terms of PGE's tariff. ICNU requests that the filing be suspended.

Declaration Window: The Company proposes extending the declaration window when a customer may choose the five-year opt out from one week to one month. The timing of the window was changed from November 1st through 8th to September 1st through 30th. These changes are in compliance with the wishes of the UM 1081 task force. Staff applauds PGE for making these changes. Lengthening the window allows customers more time to make the decision to choose direct access. The timing of the offer may provide a greater potential for favorable market conditions that may incent customers to choose direct access.

Transition Adjustment: The filing also includes a zero transition adjustment. In last year's offering, a transition charge of \$0.00061 per kWh, calculated using the transition cost model from the company's least cost plan, was associated with the offering. This year the company asserts that since there is so much uncertainty included in five-year cost estimates, "zero presents a reasonable though not risk-free solution."

PGE's proposal to include zero transition adjustment is contrary to the wishes of almost all members of the Direct Access Task Force. It is contrary to the methodology used in the 2002 five-year opt out offering and in staff's opinion it is not appropriate.

As an alternative to a five-year transition adjustment calculation used in last year's offering, the direct access task force discussed implementing a one-year transition

² The Part B Adjustment to Schedule 125 sets the transition charge or credit for short-term resources.

adjustment, calculated with the methodology used for the Schedule 583 one-year opt-out program. Since the costs for years two through five would be less certain, a zero transition charge for those years could be zero under this alternative. This approach would represent a compromise between the company's position that zero is appropriate because a five year calculation is an imprecise estimate and customers who believe that changing the methodology at this point is inequitable because this year's calculation would likely result in a credit rather than a charge as was implemented in last year's offering.

As cost support for its proposed zero transition adjustment, PGE presented transition cost model results that it states demonstrate the variability of 5-year transition cost estimates. PGE used electricity prices from the company's November 12, 2002 forward price curve for its Base Case. It used base case electricity prices from its 2002 IRP Supplement for its High Case, and used low electricity prices from its 2002 IRP Supplement for its Low Case. PGE used base case natural gas prices from the 2002 IRP Supplement in all three cases. The Base Case results in a transition credit of \$0.20 per MWh. The High Case results in a transition credit of \$3.80 per MWh and the Low Case results in a transition charge of \$4.18 per MWh.

Staff received an electronic version of the transition cost model PGE used to calculate cost support for its proposed zero transition adjustment late on the afternoon of August 13, 2003. Using the transition cost model, staff made two transition cost model runs. Staff used electricity prices from the August 13, 2003 Electricity Market Report and natural gas prices from the August 13, 2003 NYMEX Futures Contract Listing for a Base Case³. Staff replaced the 2004 electricity price and the 2004 natural gas price with the prices used in PGE's June 23, 2002 MONET run filed in UE 149 to create an Alternative Case. Staff's Base Case results in a transition credit of \$0.84 per MWh. Staff's Alternative Case results in a transition credit of \$1.26 per MWh. Appendix A provides a side-by-side comparison of PGE's and Staff's transition cost model runs.

Staff believes its Base Case is the best estimate of the 5-year transition cost. It uses recent market prices and more accurately reflects current market conditions. It is consistent with prior year transition adjustment methodology and results in a more equitable distribution of estimated system benefits which may result from customers leaving PGE's system.

³ Staff calculated annual flat Mid-Columbia electricity prices from the on-peak and off-peak bid/ask prices reported in the Electricity Market Report as the hour-weighted average of on-peak and off-peak 'mid-prices'. Staff calculated annual natural gas prices at the AECO and Sumas market hubs by applying the basis differentials reported in the Northwest Power Planning Council's Fifth Northwest Conservation and Electric Power Plan to the calendar year average of the monthly NYMEX futures prices.

Alternatively, PGE could implement a transition adjustment for year one and a zero transition adjustment for years two through five of the opt-out period. This adjustment would be calculated with the Monet program used by PGE to calculate transition adjustments for its one-year opt-out options. It represents a compromise between the position of PGE and other parties in the UM 1081 proceeding. Staff would find this alternative acceptable, should the five-year transition credit of \$0.84 per MWh be rejected by the company and the Commission.

However, PGE has stated that if it is required to implement a transition credit it will withdraw the filing. Should the Commission direct PGE to offer the program with a transition credit against the company's wishes, a contested case could not be completed in time to implement the offering in time for the September 2003 declaration window or for the January 2004 implementation date. If the Commission believes that it is important that the five-year opt-out be made available for a September 2003 declaration window, then the Commission should approve of PGE's proposed tariff and a less arbitrary transition adjustment for future offerings should be implemented via another proceeding. If, on the other hand, the Commission believes that an accurate transition adjustment is more important than a timely offering, then staff recommends the Commission suspend the filing for further consideration of the transition adjustment. Given the ICNU's formal complaint filing and staff's assessment of the transition adjustment methodology used by PGE, staff recommends suspension of the tariff.

PROPOSED COMMISSION MOTION:

Portland General Electric's Advice No. 03-12, as filed on July 25, 2003 be suspended.