

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 31, 2003

REGULAR CONSENT EFFECTIVE DATE _____

DATE: March 18, 2003

TO: John Savage though Lee Sparling and Jack Breen

FROM: Janet Fairchild on behalf of the Portfolio Advisory Committee and on behalf of Staff

SUBJECT: Portfolio Advisory Committee: Recommendations for Renewable Portfolio Options.

SUMMARY RECOMMENDATIONS:

The Portfolio Advisory Committee makes the following recommendations regarding renewable resource portfolio options¹ to be offered beginning January 1, 2004:

1. The Committee recommends that the Commission modify the standards for resource content and the definition of "significant new" resources for renewable resources options beginning in 2004:
 - For the block product, energy or tradable renewable certificates for 100 percent new renewable resources, as defined by Senate Bill 1149,² in increments of at least 100 kilowatt-hours.

¹ There are currently three renewable product options offered through the portfolio. Under the block product, also known as the fixed renewable option, a customer purchases renewable resources in fixed 100 kWh block increments. Currently the fixed renewable option is offered by the utilities. PGE's offering is known as *Clean Wind* and PacifiCorp's offering is known as *Blue Sky*.

There are also two blended product offerings - the Renewable Usage option and the Environmental Mitigation (or Habitat) option. Green Mountain Energy is currently the supplier for renewable resources to serve both the blended product options. Under the blended product options, customers purchase 100 percent of their energy from renewable resources. The difference between the two blended product offerings is that under the Habitat option, customers make an additional contribution to support salmon habitat restoration. No such donation is made under the Renewable Usage option.

² The SB 1149 definition of new renewable resources has been codified in ORS 757.600(21).

- For blended products (Renewable Usage and Environmental Mitigation options), energy or tradable renewable certificates for 100 percent of the customer's usage, consisting of at least 20 percent new renewable resources as defined by Senate Bill 1149, and the remainder from other qualifying renewable resources.
2. The Committee recommends that the Commission require the utilities and the resource supplier/marketers to provide customers, via their Internet site and written materials in response to customer inquiries, the following information on generating facilities supplying each of the renewable resource options, beginning June 30, 2003:
- For current calendar year – The location of the generating facilities (region or state), the type of renewable resources supplying the facilities, and the percentage of “new” renewable resources as defined by SB 1149. The following definition should be included: “New renewable resources are generating facilities that first started operating after July 23, 1999, per Oregon Senate Bill 1149.” The utilities and resource suppliers/marketers also should list the names of generating facilities they plan to purchase from and update the information as purchases are made.
 - For prior calendar year – The name of the facilities, their location (region or state), their date of first operation, the type of renewable resource supplying the facilities and the percentage of energy or tradable renewable certificates supplied by each facility. The information should be updated by the end of the first quarter of the current year.

The Internet address should be included on all new marketing materials larger than post-card size in the following manner: “For more information on the generating facilities supplying the renewable resource options, visit **WWW.xxxxx.com, or call 1-800-xxx-xxxx.**”

3. The Committee recommends that the Commission authorize the utilities to continue to offer their *Blue Sky* and *Clean Wind* renewable block products, as currently designed and administered, through 2004.
4. The Committee recommends that the Commission require the utilities to conduct a formal bidding process to select suppliers to provide 100 percent renewable resource energy or tradable renewable credits, together with retail marketing services, for Renewable Blended and Environmental Mitigation options for the 2004 – 2006 service term. The PUC should approve the bid

process and RFPs. The selection criteria for the bid process will include, but in no way be limited to, the following:

- Percentage of new renewable resource. Preference will be given to bids of 30 percent new renewable content or more that are similar in price to the current product;
- Quality of retail marketing services, including a marketing plan reflecting the maturation of the portfolio program and new approaches needed to increase and maintain customer participation;
- Collaboration with education and marketing efforts of the utility and the provider of environmental mitigation services, beginning in fall 2003; and
- A preference for bids from generating facilities in the Western Electricity Coordinating Council.

Further, the RFP and contract should allow the renewable resource supplier/marketer to propose changes to the product structure post-2004 for consideration by the Portfolio Advisory Committee and the PUC. Such proposed changes should only be to increase the benefits to customers.

5. The Committee recommends that the Commission require PGE and PacifiCorp to continue offering a habitat option for the 2004-2006 service term under the following terms and conditions:
 - Environmental mitigation funds from the program option will be dedicated to salmon habitat restoration.
 - For the Sake of the Salmon's current contract as the recipient of environmental mitigation funds will undergo an evaluation to be completed by February 28, 2004. If significant deficiencies in financial or managerial responsibilities in administration of the funds are found, the Committee recommends that the utilities be required to immediately solicit proposals from organizations wishing to receive and use environmental mitigation funds for salmon habitat restoration collected under the program option. Assuming the evaluation finds no significant deficiencies in financial or managerial responsibilities, the Committee recommends that For the Sake of the Salmon's contract as the recipient and manager of the environmental mitigation funds be extended until January 1, 2005.

- The utilities will be required to solicit proposals from organizations wishing to receive and use environmental mitigation funds for salmon habitat restoration collected under the program option with a process that will be conducted in order for an agreement with the successful organization to be implemented starting January 1, 2005.

Additional Staff Recommendation:

6. Staff recommends that the Commission appoint Natalie McIntire to serve as the Renewable Northwest Project representative on the Portfolio Advisory Committee for the remainder of the November 1, 2002, to October 31, 2004 term.
7. Staff recommends that the Commission waive OAR 860-038-0220(3) to allow a three-year service term for the Renewable Usage and Habitat options, beginning January 1, 2004.
8. Staff recommends that the references to Senate Bill 1149 and Oregon Senate Bill 1149 shown in Recommendation Nos. 1 and 2 be changed ORS 757.600 (21)."

DISCUSSION:

As required by OAR 860-038-0220(3) and (10), the Portfolio Advisory Committee (PAC or the Committee) makes annual recommendations to the Commission regarding the portfolio of electric product and pricing options to be offered to residential small non-residential customers. Current Committee members are:

<u>Representing</u>	<u>Current Individual Filling Position</u>	<u>Group Affiliation of Current Committee Member</u>
PUC Staff	Janet Fairchild	Public Utility Commission
OOE Staff	Lisa Schwartz	Office of Energy
Local Government	Dave Tooze Andrea Fogue	City of Portland League of Oregon Cities
Electric Companies	Doug Kuns Paul Wrigley	PGE PacifiCorp
Residential Customers	Jason Eisdorfer	Citizen's Utility Board
Public/Regional Interest Groups	Ann Gravatt Jeff Bissonnette	Renewable Northwest Project Fair and Clean Energy Coalition
Small Non Residential Customers	John Patterson	Mr. Sun Solar

At the January 22, 2003 PAC meeting, the Renewable Northwest Project (RNP) requested that its representative, Ann Gravatt, be replaced by Natalie McIntire, RNP's Program Coordinator of Green Power Programs. The Committee voted unanimously to accept Ms. McIntire as RNP's representative. She has attended numerous Committee meetings and has served as Ms. Gravatt's proxy on several occasions. Therefore, Staff makes Recommendation No. 6, that the Commission appoint Ms. McIntire to serve as RNP's representative for the remainder of the November 1, 2002, to October 31, 2004, term.

Current Portfolio Option Offerings: The current portfolio of options offered to PGE and PacifiCorp customers includes: a Time of Use option and (for PacifiCorp) a Seasonal Flux option, a Fixed Renewable (Block) option, a Renewable Usage (Blended) option, and a Habitat Restoration (Habitat or Environmental Mitigation) option.³ The renewable resource options include significant new renewable energy resources to comply with ORS 757.603(2)(a).

Customers are also offered a basic service (regulated cost of service rate) option. ORS 757.603(1)(a) required that the basic service option be offered, but it is not considered one of the portfolio options. Therefore, the Committee makes no recommendations regarding basic service.

The Time of Use and Seasonal Flux options are market based and meet the requirements of ORS 757.603(2)(b). The Committee will make recommendations regarding these options for the term beginning in 2004 in July of this year.

Recommendations Regarding Renewable Resource Options: In its July 1, 2002 recommendations to the Commission, the PAC stated its intent to make recommendations for the 2004 Renewable Usage and Habitat options in March 2003, rather than waiting until the July 2003 deadline mandated by OAR 860-038-0220. Before a renewable resource supplier/marketer is selected to provide these options, utilities must issue RFPs based on the recommendations made by the Committee and approved by the Commission. The Committee believes that advanced selection of the renewable resource supplier/marketer will facilitate a smoother transition (should a new supplier/marketer be selected) and minimize any interruption of marketing efforts for the renewable options. Therefore, the Committee offers its recommendations regarding renewable product offerings for the service period beginning January 1, 2004 at this time.

³ Under the Renewable Usage and Habitat Restoration options, the utilities currently purchase enough green tags from renewable resources to meet 100 percent of a customer's electricity usage.

Recommendation No. 1: Standards for Renewable Resource Content. OAR 860-038-0220(4) requires that at least one portfolio option contain “significant new” renewable resources as defined by the Committee. The Committee previously adopted the *Renew 2000* standard to define “significant new” renewable resources.^{4,5} That standard requires:

- Blended renewable resource products must contain a minimum of 50 percent renewable resource.
- The minimum required use of new renewable is 15 percent of the total content. The new renewable energy requirement may be counted toward the overall 50 percent renewable energy requirement.
- The remaining 50 percent must have air emissions and spent fuel rates that do not exceed the kilowatt averages for the electricity generating system as defined by state requirements or regional practice, except that the average kilowatt rate for carbon dioxide must meet the Oregon siting standard.
- The blended renewable resource product provides 100 percent of the customer’s load.

Product options offered in 2002 and 2003 exceeded this standard. The Committee wants to ensure that the quality of future product offerings is not eroded. Therefore, it makes the following recommendation to modify the resources standard and definition.

The Committee recommends that the Commission modify the standards for resource content and the definition of “significant new” resources for renewable resources options beginning in 2004:

- *For the block product, energy or tradable renewable certificates for 100 percent new renewable resources, as defined by Senate Bill 1149, in increments of at least 100 kilowatt-hours.*

⁴ See the Committee’s March 13, 2001 Recommendations to the Commission.

⁵ “New renewable energy resource” is defined at ORS 757.600(21) as “a renewable energy resource project, or a new addition to an existing renewable energy resource project, or the electricity produced by the project, that is not in operation on July 23, 1999. “New renewable energy resource” does not include any portion of a renewable energy resource project under contract to the Bonneville Power Administration on or before July 23, 1999.”

- *For blended products (Renewable Usage and Environmental Mitigation options), energy or tradable renewable certificates for 100 percent of the customer's usage, consisting of at least 20 percent new renewable resources as defined by Senate Bill 1149, and the remainder from other qualifying renewable resources.*

Members present at the February 6, 2003 Committee meeting, approved this recommendation unanimously. It was noted that any tariffs referencing the prior standards will have to be modified, should the Commission approve this Committee recommendation.

Subsequent to the Feb. 6, 2003 Committee meeting, Doug Kuns noted that the Oregon Senate Bill 1149 definition of new renewable resource has been codified in OAR 757.600. The general public would have better access to the statute than to the original bill. Therefore, Staff recommends that the Commission implement Recommendation Nos. 1 and 2, with the reference to SB 1149 changed to reference OAR 757.600.

Recommendation No. 2: Additional Disclosure Requirements. This recommendation is meant to make it easier for consumers to get information on the specific facilities their purchases are supporting, and thereby, to maintain the credibility of the renewable resource options. It establishes additional disclosure, via the Internet or in response to customer inquiry, regarding the beginning date of operations and the location of renewable energy generating facilities used to supply renewable portfolio options.

The Committee recommends that the Commission require the utilities and the resource supplier/marketers to provide customers, via their Internet site and written materials in response to customer inquiries, the following information on generating facilities supplying each of the renewable resource options, beginning June 30, 2003:

- *For current calendar year – The location of the generating facilities (region or state), the type of renewable resources supplying the facilities, and the percentage of “new” renewable resources as defined by SB 1149. The following definition should be included: “New renewable resources are generating facilities that first started operating after July 23, 1999, per Oregon Senate Bill 1149.” The utilities and resource suppliers/marketers also should list the names of generating facilities they plan to purchase from and update the information as purchases are made.*

- *For prior calendar year – The name of the facilities, their location (region or state), their date of first operation, the type of renewable resource supplying the facilities and the percentage of energy or tradable renewable certificates supplied by each facility. The information should be updated by the end of the first quarter of the current year.*

*The Internet address should be included on all new marketing materials larger than post-card size in the following manner: “For more information on the generating facilities supplying the renewable resource options, visit **WWW.xxxxx.com, or call 1-800-xxx-xxxx.**”*

All members present at the Feb. 6, 2003 Committee meeting voted for this recommendation except Janet Fairchild, who abstained. She believes that the requirement is unnecessary because utilities and marketers are already doing a good job of answering customer questions regarding the source of renewable products. However, she did not wish to vote against the majority in this instance, particularly since the utility representatives, who will have to implement the requirement, voted for it.

As previously noted, Staff recommends that the Commission implement Recommendation Nos. 1 and 2, with the reference to SB 1149 changed to reference OAR 757.600.

Recommendation No. 3: Fixed Renewable (block purchase) Options. There are currently 5,845 customers enrolled in PGE’s *Clean Wind* fixed renewable option. Customers are charged \$3.50 per 100 kWh block purchased: \$2.50 of the amount received is placed in a new renewable resources development and demonstration fund to be used for public renewable resource demonstration projects.⁶ The remaining \$1.00 is dedicated to program administration and to the purchase of green tags to meet the program requirements.

There are 3,996 customers enrolled in PacifiCorp’s *Blue Sky* fixed renewable option. Customers are currently charged \$2.95 for each 100 kWh block purchased. The proceeds are used to cover program costs and the incremental cost of purchasing new renewable energy. However, PacifiCorp currently has a tariff proposal before the Commission to reduce the price to \$1.95 and to allow the Company to fulfill its

⁶ Funds collected prior to implementation of the Portfolio, along with interest, were transferred to the Energy Trust in accordance with Tariff Schedule 52, on Nov. 26, 2002. The remaining fund balance as of Dec. 31, 2002 was \$168,565. This balance consisted of collections and interest accrued at 4.2 percent from March 1, 2002 through Dec. 31, 2002.

commitment via the purchase of green tags rather than exclusively through the purchase of renewable energy.

Both companies' options predate the portfolio and have been well received by customers. The Committee does not believe that the options should be changed at this time and submits the following recommendation.

The Committee recommends that the Commission authorize the utilities to continue to offer their Blue Sky and Clean Wind renewable block products, as currently designed and administered, through 2004.

A resolution to make this recommendation passed unanimously at the February 6, 2003 Committee meeting.

Recommendation No. 4: Resource Supplier/Marketer for the Blended Renewable Product Options (Renewable Usage and Habitat). Currently, Green Mountain Energy is the resource supplier and marketer for both utilities for both these options. OAR 860-038-0220(6) requires each electric company to acquire renewable energy resource products through either a Commission-approved bidding process or another Commission-approved means. The consensus among Committee members is that a competitive bid process is the appropriate means for the utilities to obtain renewable resources and marketing services. The Committee further believes that certain resource content specifications and marketing service requirements should be included in the utilities' requests for proposal. The Committee makes the following recommendation to ensure a competitive bid process that conforms to Oregon's administrative rules and that will enable the utilities to economically obtain high quality renewable resources and marketing services.

The Committee recommends that the Commission require the utilities to conduct a formal bidding process to select suppliers to provide 100 percent renewable resource energy or tradable renewable credits, together with retail marketing services, for Renewable Blended and Environmental Mitigation options for the 2004 – 2006 service term. The PUC should approve the bid process and RFPs. The selection criteria for the bid process will include, but in no way be limited to, the following:

- *Percentage of new renewable resource. Preference will be given to bids of 30 percent new renewable content or more that are similar in price to the current product;*

- *Quality of retail marketing services, including a marketing plan reflecting the maturation of the portfolio program and new approaches needed to increase and maintain customer participation;*
- *Collaboration with education and marketing efforts of the utility and the provider of environmental mitigation services, beginning in fall 2003; and*
- *A preference for bids from generating facilities in the Western Electricity Coordinating Council.*

Further, the RFP and contract should allow the renewable resource supplier/marketer to propose changes to the product structure post-2004 for consideration by the Portfolio Advisory Committee and the PUC. Such proposed changes should only be to increase the benefits to customers.

A resolution to make this recommendation passed unanimously at the February 6, 2003 Committee meeting.

PUC Approval of Bid Process and RFP: PUC approval of the bid process and the RFP is consistent with both OAR 860-038-0220(6) and Commission Order No. 91-1383.

Service Term: This recommendation includes a three-year (2004-2006) service term. In response to the Committee's July 1, 2002 recommendations, the Commission waived the 12-month service term requirement of OAR 860-038-0220(3) to allow two-year service terms for 2004 portfolio offerings, should the Committee recommend them. The Commission further granted the Committee's request for flexibility to make recommendations for portfolio options with terms up to three years. (See July 1, 2002 Recommendation Nos. 9 and 10.)

At the time the July 2002 recommendations were made, the Committee expected to recommend a two-year service term for these options. Based on subsequent discussions with suppliers, most Committee members now believe that a three-year service term contract for 2004 offerings will provide an opportunity for lower cost green tag purchases and more effective and efficient marketing.

To ensure compliance with the Administrative Rules and in accordance with OAR 860-038-0001(4), Staff makes Recommendation No. 7 that the Commission waive OAR 860-038-0220(3) to allow a three-year service term for the Renewables Usage and Habitat options, beginning January 1, 2004, as found in the Committee's Recommendation Nos. 4 and 5.

Product Content Preferences: As discussed under Recommendation No. 1 above, current standards only require blended product offerings to include 50 percent renewable resource, with 15 percent of the renewable resource coming from new renewable resource facilities. However, the current blended products actually being offered include 100 percent renewable resources, with 20 percent new renewable resources.

The Committee strongly believes that future product offerings should meet or exceed the content standard currently being achieved. However, the Committee is also cognizant that higher quality resources may cost more. In order to allow utilities to weigh the tradeoff between higher quality content and higher cost, this recommendation includes the caveat that preference should be given to bids of 30 percent⁷ or more new renewable resources.

Marketing & Education Preferences: Efficient and effective marketing and customer education are essential to the continued success of renewable portfolio options. Those customers most inclined to sign-up for a renewable resource option are likely already participating in the program. To facilitate continued growth in participation, the Committee recommends that selection criteria include consideration of marketing plans that include new approaches needed to increase and maintain customer participation and that offer collaboration with the education and marketing efforts of the utility and the environmental mitigation service provider.

WECC Preferences: The Committee recommends that a preference be given to bids from resources located within the WECC because many customers prefer to support facilities that deliver power to their electric system and believe that they obtain more benefits from renewable energy produced closer to their homes and businesses.

In their evaluation of RFPs for the 2002-2003 Renewable Usage and Habitat options, PGE included a preference for resources from the WECC and PacifiCorp gave graduated preferences to resources located within the WECC, within the Northwest, and within Oregon. These preferences were weighted against the cost of resources supplied from each region. The Committee believes that this rating process provided a reasonable and effective balance between keeping costs low and encouraging local renewable resource development.

⁷ The 30 percent level of new renewable resource was chosen because it doubles the current percentage requirement of new renewable resource required to be included in blended product offerings.

Allowing Program Modifications: The Committee recognizes that the market for renewable resources is very dynamic and that new opportunities arise from time to time. The Committee does not want to preclude any opportunity that presents benefits to customers. Therefore, the Committee recommends that the supplier/marketer chosen for the 2004-2006 service period be explicitly allowed to propose changes to the product or program structure, so long as those changes are shown to be of benefit to customers.

Recommendation No. 5: Habitat Option Program. For the Sake of the Salmon (FSOS) is the current recipient of environmental mitigation funds collected via the Habitat Mitigation option. It was formed in 1995 and is a multi-stakeholder regional salmon recovery organization. Its mission is to restore salmon levels that ensure healthy, sustainable natural populations and support productive fisheries. FSOS has been working with PGE on a habitat mitigation option since December 1999, and with PacifiCorp since March 2002. To date, it has directly invested approximately \$215,000 in salmon habitat restoration projects in PGE and PacifiCorp service territories.

The Committee recommends that the Commission require PGE and PacifiCorp to continue offering a habitat option for the 2004-2006 service term under the following terms and conditions:

- *Environmental mitigation funds from the program option will be dedicated to salmon habitat restoration.*
- *For the Sake of the Salmon's current contract as the recipient of environmental mitigation funds will undergo an evaluation to be completed by February 28, 2004. If significant deficiencies in financial or managerial responsibilities in administration of the funds are found, the Committee recommends that the utilities be required to immediately solicit proposals from organizations wishing to receive and use environmental mitigation funds for salmon habitat restoration collected under the program option. Assuming the evaluation finds no significant deficiencies in financial or managerial responsibilities, the Committee recommends that For the Sake of the Salmon's contract as the recipient and manager of the environmental mitigation funds be extended until January 1, 2005.*
- *The utilities will be required to solicit proposals from organizations wishing to receive and use environmental mitigation funds for salmon habitat restoration collected under the program option with a process that will be*

conducted in order for an agreement with the successful organization to be implemented starting January 1, 2005.

The first part of this recommendation passed unanimously at the February 6, 2003 Committee meeting. The recommendation was further considered via e-mail between all Committee members throughout the following month. A resolution completing the recommendation was passed, via e-mail vote on March 14, 2003.

The Committee has received no indication that FSOS is not doing an excellent job of administering the funds it has received. In fact, FSOS's administrative costs are quite low, and it uses the contributions it receives from the Environmental Mitigation option to leverage funding from federal programs and non-profit entities to maximize the actual project funding.

PGE is happy with FSOS's performance and does not believe that a bid process is necessary, unless complaints are received or an evaluation, should one be required, shows that FSOS is not performing appropriately. PacifiCorp believes that a future bid process is in order, but since it has only been working with FSOS since March 2002, it wants more time to establish a sufficient track record upon which to evaluate FSOS's performance. Some Committee members believed that an evaluation was in order, but that provided the evaluation was positive, opening the bid up to other entities was not necessary. Still other Committee members believed that an RFP for the fund recipient should be required for the service period beginning 2004.

After significant debate, the Committee reached a general consensus that periodic evaluations should be completed and that bids from all organizations should be considered on a regular basis. The timeframe for evaluation and a bid process included in the recommendation is the result of a compromise between Committee members.

PROPOSED COMMISSION MOTION:

The Commission adopts Portfolio Advisory Committee recommendations 1 through 5 and Staff recommendations 6 through 8.