

Blue Sky Program

Usage & Habitat Options

Price Increase Request

Portfolio Options Committee - November 14, 2008 Meeting
Prepared by Pacific Power & 3Degrees

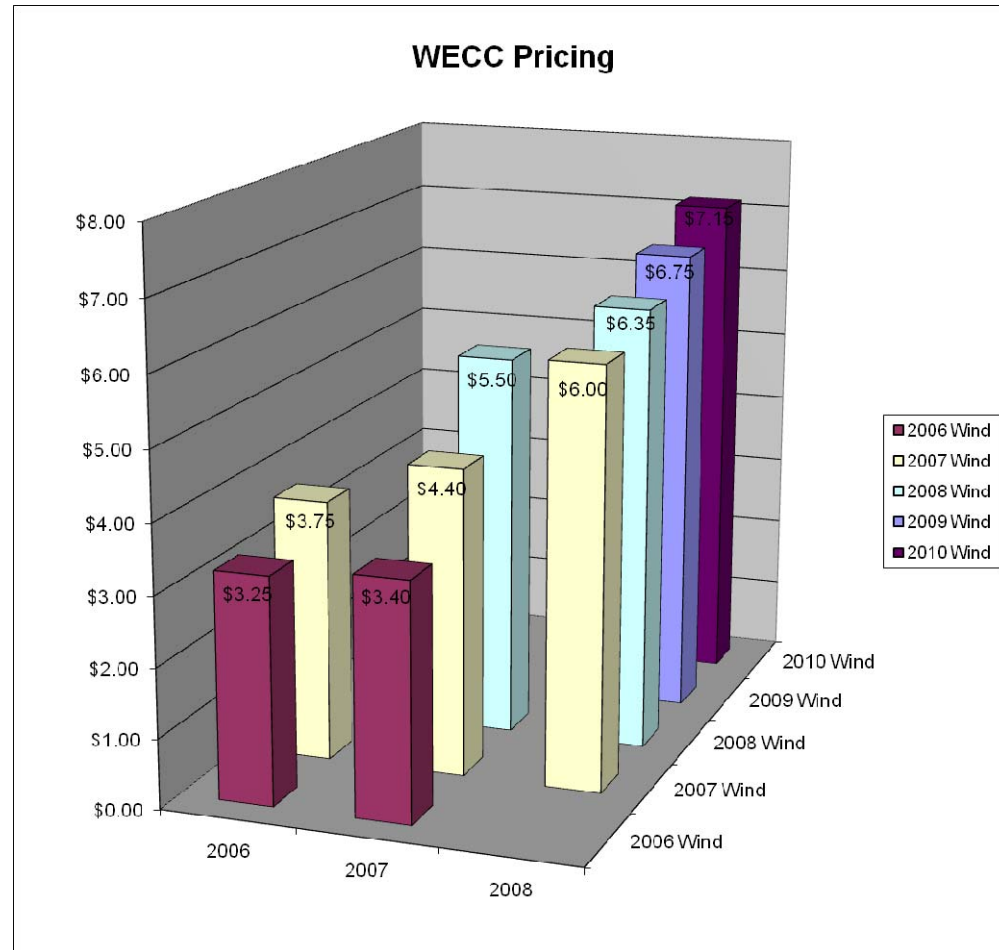
Background



- April 23, 2008: Pacific Power and PGE introduced the concern of rising REC prices to the POC as part of a conversation about the requirement to supply WREGIS certified RECs
- September 10, 2008: PGE proposes an increase in the retail rate of Green Source due to rising REC prices
- October 20, 2008: PUC approves PGE's request for a Green Source tariff increase
- July through November, 2008: Pacific Power conducts meetings internally and with 3Degrees to determine the best course of action for the Blue Sky program in the face of rising REC prices



WECC wind price trends



Pricing Review at Current Premium Levels



- All else held equal, the Blue Sky Usage and Habitat programs will create a program deficit of more than \$300,000.00 in 2009
- Per OAR 860-038-0220 Section 8 these programs are intended to be self-funded; the retail rate should reflect actual program costs

| 2009 at \$0.0078/kwh | |
|--|-------------------|
| Projected program sales (kwh) – an increase of 15% over 2008 | 282,179,000 |
| Usage/Habitat Option revenue | \$2,200,996 |
| REC Costs | \$2,029,149 |
| Marketing Costs | \$475,000 |
| Surplus or deficit | -\$303,153 |



Strategies Considered & Related Consequences



| Strategy | Consequences |
|--|--|
| Increase the retail rate | Blue Sky customer bills increase; some customers may leave the program but the program is still likely to grow in 2009 though growth may be slower due to a variety of factors. Anticipated Usage and Habitat program growth is 8% in 2009—approximately 5,300 new customers |
| Allow flexibility in renewable energy supply (currently 38% biomass, 61% wind, 1% solar) | <ul style="list-style-type: none"> •Resource flexibility in biomass will allow us to source RECs entirely from the WECC (primarily Pacific NW) with only a modest price increase. •Customers have not expressed a preference for biomass like they have for regional RECs. Prior customer research indicated that wind and solar resources are the most desired resources to support. • No effect on program growth anticipated—however, not sufficient to correct the problem |
| Use National RECs instead of WECC | Blue Sky customers have a preference for regional RECs which allow them to make a difference here at home. National RECs vary in price by market conditions, but can often be acquired for less than WECC RECs. |
| Cut program marketing | A cut of \$300,000 would likely mean the program would lose customers annually and fewer and fewer MWhs of renewable energy would be supported. The program would likely shrink by approximately 10% each year—the program would have approximately 7,000 fewer customers at year end than with the increase the retail rate option. |

Recommendation



Two part solution including:

- Allow biomass flexibility (wind can be used instead where necessary)
- Increase the retail rate to \$0.0089/kwh (\$8.90/MWh)

Effect of price increase: Average Blue Sky customer will see a monthly increase of \$0.97.

| | 2009 at \$0.0089/kwh |
|---|----------------------|
| Program sales (kwh) | 282,179,000 |
| Program revenue | \$2,511,393 |
| REC Costs | \$2,029,149 |
| Marketing Costs (includes 3Degrees admin costs) | \$475,000 |
| Surplus or deficit | \$7,244 |

Proposed Timeline



- November 14, 2008: POC approves recommendation of Blue Sky Usage and Habitat tariff price change
- Week of November 17, 2008: Pacific Power files tariff change with PUC
- December 9, 2008: PUC issues decision on Pacific Power tariff change
- December 10th, 2008: Bill message begins to appear on all Blue Sky Usage & Habitat customer bill alerting them to the price change.
- January 1st, 2009: Blue Sky Usage and Habitat retail rate change goes into effect
- Late January 2009: Price change is communicated again to all Blue Sky Usage & Habitat customers in their Blue Sky Annual Report.

Retail rate differences explained



The retail rates of Green Source and Blue Sky Usage and Habitat will differ by 3.1 cents per kwh in 2009

- **Timing:** Between September when PGE proposed its retail rate increase, REC prices have fallen modestly and liquidity has increased
- **Different market risk considerations:** Increased REC market liquidity in October allowed 3Degrees to reduce risk by finalizing contracts for 2009 supply
- **Different products & contracts:** Different resource mixes mean different costs; different contracts also influence decision making



POC Recommendation for Usage/Habitat Option Price Change



The Portfolio Options Committee reviewed and supports Pacific Power's proposal to file with the Commission adjustments to the Renewable Portfolio Options prices under Schedule 211 and Schedule 213 as outlined below to reflect increasing costs of RECs:

For the Renewable Usage and Habitat portfolio options set the price at \$0.0089/kwh from the current \$0.0078/kwh.