

Pacific Power Proposal to the Portfolio Options Committee

November 7, 2008

Recommendation: Pacific Power is proposing to increase the retail rate of Blue Sky Usage and Habitat to \$0.890 cents per kWh (from \$0.780 cents per kWh) and a change to the Blue Sky Usage and Habitat resource mix (which does not require PUC approval) of “at least 61% wind, 1% solar, and up to 38% biomass.” This is an increase of \$0.110 cents per kWh over the existing retail rate; the average Blue Sky Usage and Habitat customer will see an increase of \$0.97 a month. No changes are proposed to the Blue Sky Block pricing at this time. A more detailed presentation will be given at the November 14th POC meeting.

History to date:

- April 23, 2008: Pacific Power and PGE introduced the issue of rising Renewable Energy Credits (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.
- September through November, 2008: Pacific Power conducts meetings internally and with its vendor, 3Degrees, to determine the best course of action for the Blue Sky program in the face of rising REC prices.
- November 14, 2008: Pacific Power will request Portfolio Options Committee support of an increase to the retail rate of Blue Sky Usage and Habitat.

Background on REC prices: REC prices in the WECC have risen dramatically over the past year—occasionally to nearly double their 2006 and 2007 prices. Evidence of REC price increases has been corroborated by Pacific Power, PGE, Green Mountain Energy, 3Degrees, independent REC brokers, and RNP (through an inquiry to independent REC brokers). The increase in REC prices stems in large part from the implementation of RPS banking rules in Oregon and Washington renewable portfolio standards, and uncertainty over whether or not California will allow WECC RECs from outside of California to satisfy the California RPS. Without a change to the retail rate, the Blue Sky Usage and Habitat programs would lose money in 2009.

Considerations: The Commission's intent was for these programs to be self-funding and for the retail rate to reflect the total cost of the program. Pacific Power worked with its vendor, 3Degrees to examine alternatives to increasing the retail rate of the Blue Sky program. We examined the following options:

- Provide nationally sourced RECs rather than RECs from within the WECC
- Decrease program marketing spending
- Allow flexibility in the current supply mix of 1% solar, 38% biomass, and 61% wind

Ultimately, Pacific Power and 3Degrees concluded that it could deliver the best value to customers by allowing flexibility in the current supply mix and increasing the retail rate modestly. Marketing spending could not be cut significantly without seriously affecting the program in 2009. While using some nationally sourced RECs may be considered in the future, customers, especially those in our more rural service territories, value the program's support of regional projects which boost our regional economy.

Proposed Timeline:

- November 14, 2008: POC recommendation to approve passed
- December 9, 2008: PUC decision
- December 9, 2008 - January 1, 2009: Customer Communication
- January 1, 2009: Price change effective