

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 10, 2008**

REGULAR  CONSENT  EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

**DATE:** June 2, 2008

**TO:** Public Utility Commission

**FROM:** Lisa Schwartz

**THROUGH:** Lee Sparling and Ed Busch

**SUBJECT:** OREGON PUBLIC UTILITY COMMISSION STAFF: Methodology for determining the annual revenue requirement of an electric company pursuant to ORS 469A.100 (cost of compliance with a renewable portfolio standard).

**STAFF RECOMMENDATION:**

Staff recommends the Commission adopt the methodology specified in Attachment A for determining the annual revenue requirement of an electric company pursuant to ORS 469A.100.

**DISCUSSION:**

The 2007 Oregon Legislature adopted a renewable portfolio standard (RPS, Senate Bill 838). Under the law, large utilities including Portland General Electric (PGE) and PacifiCorp must meet 25 percent of their energy needs by 2025 with qualifying renewable resources. The requirement for the first compliance year, 2011, is 5 percent. The requirement increases to 15 percent in 2015 and 20 percent in 2020.<sup>1</sup>

Under ORS 469A.100, electric utilities are not required to comply with the standard in a compliance year to the extent that the incremental cost of compliance, the cost of unbundled renewable energy certificates, and the cost of alternative compliance payments exceed 4 percent of the utility's annual revenue requirement.

The law requires the Commission to establish the methodology for determining the annual revenue requirement no later than July 1, 2008. Staff and parties have been

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<sup>1</sup> Small utilities, including Idaho Power, must meet 5 percent or 10 percent of their energy needs with qualifying renewable resources by 2025, depending on size.

discussing this and other RPS implementation issues in Docket AR 518. Given the short timeframe to implement this provision and the amount of work remaining to develop related RPS rules, parties agreed that staff would ask the Commission to initially establish the annual revenue requirement methodology at a public meeting. Staff would include the adopted methodology when filing a complete set of proposed rules related to ORS 469A.100 later this year.

PGE and PacifiCorp proposed different methods for consideration by parties. PGE initially proposed to apply current base rates (billing determinants) to forecasted loads for each schedule to calculate the annual revenue requirement. PacifiCorp proposed to adjust the revenue requirements from the last general rate case by the ratio of the forecasted rate-case load to the forecasted compliance-year load.

PacifiCorp advised that PGE's proposed method would add a level of complexity not required by PacifiCorp's other filings. In its Transition Adjustment Mechanism (TAM), the updated revenues are spread to customer classes by a uniform percent change to current generation-related revenues. In Docket UM 1330, the Commission approved a cost allocation method for Renewable Adjustment Clause (RAC) filings on the basis of an equal percent of generation revenue spread among customer classes. Both types of filings apply a single load forecast that could be used to set the annual revenue requirement under ORS 469A.100.

However, under PGE's initial proposal, PacifiCorp would be required to forecast all elements needed to determine revenues by rate schedule, such as number of customers, peak demand and sales by block. These forecasts would not have been litigated in either the TAM or RAC filing. Thus, the Commission would need to add this review to the annual revenue requirement filing for RPS compliance.

Staff also prefers PacifiCorp's proposal because it subtracts the incremental cost of compliance, the cost of unbundled renewable energy certificates, and the cost of alternative compliance payments before scaling the revenue requirement from the last general rate case for load growth.

Parties considered PGE's suggestion that each utility have a one-time election to select among the two methods proposed, after demonstrating that results of the two methodologies would be similar. Industrial Customers of Northwest Utilities and staff opposed this concept because it would be more time-consuming and complex to review utility filings based on different methodologies.

In light of parties' preferences, PGE does not object to PacifiCorp's proposed method. Staff developed draft language for parties' review based on PacifiCorp's proposal. Staff

refined the language following parties' comments. It is staff's understanding that no party active in Docket AR 518 objects to the proposed language in Attachment A.

Staff's attorney finds the recommended methodology meets the requirements under ORS 469A.100. Specifically, the methodology accounts for costs that must be included or excluded and establishes procedures to determine the annual revenue requirement by January 1<sup>st</sup> of each compliance year.

To ensure that the established revenue requirement is properly representative of the compliance year, the specified timelines account for updates to load forecasts (accounting for direct access loads) and RAC filing updates. Further, paragraphs 1(a) and (4) work together to meet the January 1<sup>st</sup> statutory deadline and provide for review of the utility-filed annual revenue requirement, ensuring it is consistent with the Commission-approved methodology as well as Commission-approved rates for the compliance year.

**PROPOSED COMMISSION MOTION:**

The methodology specified in Attachment A for determining the annual revenue requirement of an electric company pursuant to ORS 469A.100 be adopted.

## Attachment A

### Methodology for Determining the Annual Revenue Requirement of an Electric Company Pursuant to ORS 469A.100

(1) “Annual Revenue Requirement” is the amount produced from the following calculations:

(a) If the electric company is involved in a general rate proceeding using a test year that is reasonably representative of the compliance year and that results in the Commission issuing a final order no later than January 1 of the compliance year, “Annual Revenue Requirement” is the total revenue the Commission authorizes an electric company the opportunity to recover in Oregon rates in the final rate proceeding order, adjusted for amounts and costs as needed in accordance with ORS 469A.100(3); or

(b) For a compliance year not involving a general rate proceeding under paragraph (1)(a) of this methodology, “Annual Revenue Requirement” is the amount produced by the following calculation:

(A) Calculate the operating revenues related to net power costs, the renewable adjustment clause, updates for base rate changes relating to automatic adjustment clauses, and other adjustments ordered by the Commission, authorized subsequent to the most recent general rate proceeding and adjusted for electric company load changes as needed; and

(B) To the amount calculated under paragraph (1)(b)(A) of this rule, add the product of:

(i) The total operating revenues authorized in the most recent general rate proceeding, reduced by the amount of operating revenues related to energy efficiency programs, low income energy assistance, the incremental cost of compliance, unbundled renewable energy certificates, alternative compliance payments, and net power costs in the general rate proceeding; and

(ii) The ratio of the compliance year forecasted load to the load from the most recent general rate proceeding; and

(C) In the sum calculated under paragraph (1)(b), adjust for the amounts and costs as needed in accordance with ORS 469A.100(3).

(2) For a compliance year under paragraph (1)(b) of this rule, each electric company that is subject to a renewable portfolio standard in the following calendar year pursuant to ORS 469A.052 or 469A.055 must file its proposed Annual Revenue Requirement for the following compliance year on or before November 15, 2010, and annually thereafter.

(3) On or before December 1, 2010, and annually thereafter, each electric company must amend its filing made pursuant to section (2) of this methodology for any updated renewable adjustment clause filing and retail electricity consumer loads that will be served through direct access in the compliance year.

(4) For a compliance year involving a general rate proceeding under paragraph (1)(a) of this methodology, the electric company must make a compliance filing by December 1

in the year preceding the compliance year or 14 days from the issuance date of the Commission's final order in the general rate proceeding, whichever is later. The compliance filing must calculate the total revenue the Commission authorized the electric company the opportunity to recover in Oregon rates in the final rate proceeding order, adjusted for amounts and costs as needed in accordance with ORS 469A.100(3).