

ORDER NO. 99-436

ENTERED JUL 15 1999

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 21

In the Matter of the Investigation into)
Least-Cost Planning for Resource) ORDER
Acquisitions by PORTLAND GENERAL)
ELECTRIC COMPANY.)

DISPOSITION: PLAN ACKNOWLEDGED WITH A MODIFICATION

Portland General Electric Company (PGE or company) filed its fourth integrated resource plan on September 1, 1997, in accordance with Public Utility Commission of Oregon (Commission) Order No. 89-507 and the Commission's Order No. 97-215, in which the Commission agreed to an abbreviated planning process for the company's 1998-1999 IRP. The company held a series of public meetings prior to filing the plan. Participants representing a range of interests were involved in the process of developing the plan. Staff drafted and circulated for comment a proposed order recommending that the Commission acknowledge PGE's plan with one modification, which is described below. At a public meeting on June 22, 1999, the Commission considered and adopted staff's proposed order.

PROVISIONS OF THE PLAN AND PARTY COMMENTS

PGE's Least-Cost Plan

PGE's least-cost plan (IRP or plan), titled *1998-1999 Integrated Resource Plan*, consists of a single volume which includes a discussion of the company's planning approach, an update to its *1995-1997 Integrated Resource Plan*, and a Two-Year Action Plan.

PGE's IRP presents the company's objectives for implementing energy efficiency programs and acquiring certain renewable resources over the two-year period, and describes a bridge designed to take the utility from a regulated environment to a "competitive future." PGE's plan acknowledges the transitory nature of the electric

industry today. Unknown at the time of the company's submission was the outcome of the intensive negotiations and planning surrounding the BPA subscription process and how that outcome might be incorporated into the company's plans.

The company's 1995-97 Plan introduced the concept of signposts: actions or events that would cause the company to reconsider planned or preparatory actions. The company believes it has remained flexible in order to respond to these signposts.

PGE's IRP is streamlined. It describes the company's planning approach, focusing on items that needed updating since its 1995-97 plan; an update to the action items listed in the previous plan; a new two-year action plan; and finally, how the company's plan fits in with the system benefits charge (SBC) PGE proposed in its 1997-98 restructuring filing, Docket UE 102. Each of these is discussed in more detail below.

Plan Components

- *Planning Approach.* At six public meetings the company identified its energy efficiency and renewable resources goals for 1998-99, focusing on items that needed updating since the 1995-97 plan. In that plan, PGE's analysis had indicated a set of conditions under which the company could continue to rely on the market for its incremental resource needs. The conditions were: reserve margins at 15 percent or more in the Western Systems Coordinating Council (WSCC) region; moderate load growth in the company's service territory; and gas prices remaining within the company's expected range. At the time of the company's September 1997 submission of the plan, PGE indicated that those conditions were still valid. Prompted by a staff data request, the company responded on November 6, 1998, that these conditions remained valid, indicating that it is still prudent for the company to rely on the market for its incremental resource needs during a transition period to a competitive, direct-access market. The company, however, remarked that it is appropriate to establish new energy efficiency goals for 1998 and 1999.

- *Update to 1995-97 Action Items.* The company's 1998-99 plan makes the following observations: it is still prudent and economical to fill its supply needs through purchases on the open market; the company should not build new plants due to the opportunities on the open market; hydropower efficiency improvements should continue, including relicensing three hydro projects; and PGE should continue to pursue opportunities to acquire energy savings in the residential, commercial, and industrial customer markets.

- *Two-Year Action Plan.* PGE's 1998-99 Action Plan describes new goals in energy efficiency and renewables. In energy efficiency, the company will maintain its current program delivery capability level, even though savings acquired may decline. The company's plan indicates the actions it will take to "bridge to the SBC" which it expects to result in higher spending for energy efficiency. PGE's energy efficiency goal

is 5.91 MWh and 6.18 MWh for 1998 and 1999, respectively. The Plan indicates that the additional savings will be cost-effective to acquire. PGE's sole renewable resource in this plan will be Vansycle Ridge, although the company will explore alternatives to the Columbia Hills project, which has been cancelled.

- *This Plan and the System Benefit Charge.* The company's Plan discusses the implementation of an SBC, and the Two-Year Action Plan identifies a number of bridge action items that are intended to prepare the company for the future. The company has committed to: maintaining activity levels comparable to those for 1997 by budgeting \$12.1 million for existing programs in 1998 and \$12.3 million in 1999; providing up to an additional \$1.6 million in unallocated funds in 1998 and \$1.4 million in 1999 for additional cost-effective energy savings; and maintaining 1997 activity levels to preserve energy-efficiency supply markets in its service territory.

Comments of the Parties

The Commission staff developed draft recommendations on PGE's least-cost plan which were distributed to all parties on May 14, 1999. Other parties also filed comments on the plan: Renewable Northwest Project (RNP), Northwest Conservation Act Coalition (NCAC), and Natural Resources Defense Council (NRDC). PGE filed reply comments on May 21, 1999. Parties' comments are summarized below.

Staff Comments. Staff provided its final recommendation to all parties on June 15, 1999. Staff recommended acknowledgment of PGE's plan with the following modification:

PGE must submit a proposed schedule and timeline for its next Least Cost Plan within the next sixty days. Although it is unclear when restructuring may be implemented, and the continuing need for IRP is questioned, it is appropriate that the company discuss short-term issues such as the sale of assets that are occurring now, and the need for setting energy efficiency targets for 2000-2001.

RNP Comments. Renewable Northwest Project recommends that PGE should continue the small, careful commitments to renewable resources acknowledged by the Commission in Order No. 96-224. RNP believes that PGE's key assumptions about gas and spot electricity prices are inaccurate and that the company's IRP strategy "leaves the consumer increasingly open to the risks of strong price swings and higher gas prices." PGE should, according to RNP, reevaluate these issues and devise a strategy to reduce consumer exposure to price and environmental risks. RNP continues to support the inclusion of the Vansycle Ridge Wind Project, but believes the company falls short of its commitment to renewables by not listing any potential replacement to the Columbia Hills Wind Project.

NCAC Comments. NCAC believes that PGE's Plan is inadequate and should be rejected. In its comments on the company's pursuit of conservation, NCAC suggests that PGE should focus on "finding new opportunities and delivery methods which work in a competitive environment." NCAC advocates that the company increase its spending on cost-effective conservation consistent with the 3% of revenues recommended by the Regional Review. Finally, while NCAC is encouraged by PGE's bridge action budget, there is some skepticism that the company will follow through with its commitment to NCAC to revise the budget during the Plan to raise DSM targets if any of the bridge actions showed promise.

NRDC Comments. NRDC's filed comments were generally of a clarifying nature. In the earlier draft Plan, NRDC was uncomfortable with the proposed level of the cost-effective energy efficiency opportunities that PGE would pursue. NRDC submitted several suggestions for improving the language in the Plan to indicate that these proposed levels were appropriate "considering existing programs and under current market conditions (those including the fact that no SBC yet exists)."

PGE Reply Comments. PGE responded to parties' comments and recommendations in reply comments. In its May 21, 1999, letter to staff, the company states that "it will work with Staff to determine an appropriate schedule, timeline, and scope for PGE's next IRP . . ." In subsequent discussions with staff, PGE agreed that in order to meet the 60-day time frame of the recommendation, the company would set up meetings after June 22, 1999, to discuss these issues.

OPINION

Jurisdiction

PGE is a public utility in Oregon, as defined by ORS 757.005, which provides electric service to or for the public.

On April 20, 1989, pursuant to its authority under ORS 756.515, the Commission issued Order No. 89-507 in Docket UM 180 adopting least-cost planning for all energy utilities in Oregon.

Requirements for Least-Cost Planning Under Order No. 89-507

Order No. 89-507 establishes procedural and substantive requirements for least-cost planning and provides for the Commission's acknowledgment of plans that meet the requirements of the order.

Procedural Requirements. At a minimum, the least-cost planning process must involve the Commission and public prior to making resource decisions rather than after the fact. See Order No. 89-507 at 3.

PGE sought public input during the planning process through a series of six meetings over a short time frame (due in large part to the company's concentration on energy efficiency and renewable resource goals for 1998-99). Key planning considerations were discussed with interested parties in both technical meetings and broader issues meetings. PGE's mailing list for the planning process included 149 individuals. The active group that regularly attended meetings and provided comments consisted of 15 to 20 participants representing consumer and environmental groups, regulatory organizations, and individuals with an interest in the electric industry. The company invited comment on a draft of its plan before finalizing the document. The public also had the opportunity to comment during the Commission's review of PGE's final LCP.

Substantive Requirements. The substantive requirements were set forth in Order No. 89-507 as follows:

Evaluating Resources on a Consistent and Comparable Basis. In its *1995-1997 Integrated Resource Plan*, PGE considered supply-side and demand-side resources on a comparable and consistent basis, as noted in OPUC Order No. 96-224. PGE believes that the conditions used to develop the *1995-1997 Integrated Resource Plan* still exist and that it is prudent to continue to rely on the wholesale power market for incremental supply-side resource needs during 1998 and 1999. For this update, PGE re-evaluated its DSM targets because avoided costs are lower, and technological improvements and lower costs of some DSM measures have occurred. In addition, PGE reviewed the supply- and demand-side action items from the 1995-1997 IRP and discussed the progress PGE has made in completing those action items. As required by Order No. 97-215, PGE's *1998-1999 IRP* focused on developing DSM and renewable resource targets and goals for 1998 and 1999. Because this is an update, the Plan is not "fully integrated" (the planning models were not rerun with new assumptions). Instead, PGE made inferences about what changes in DSM and renewable targets are warranted based on changes in circumstances (e.g. market prices) since the last full plan.

Uncertainty. In its *1995-1997 Integrated Resource Plan*, PGE evaluated uncertainty by assessing resource options under a range of scenarios: five cases reflecting an assortment of market supply and demand conditions; five cases with varying natural gas price assumptions; two cases that vary the level of a potential CO₂ tax; and four cases that combine market-, fuel-, or externalities-related assumptions. The 1997-99 plan includes an extensive review of these 16 cases. For this update, PGE planned its energy efficiency targets assuming "status quo" regulation because no System Benefit Charge was expected to be implemented during the planning period.

Least-Cost Planning Goals. In its *1995-1997 Integrated Resource Plan*, PGE identified the most economic resource options for the range of possible future conditions modeled by the different scenarios. In its *1998-1999 IRP*, PGE formally noted that the amount of cost-effective energy is less because avoided costs are lower. PGE reduced its goals to reflect current market conditions at the time.

Consistency with the state energy policy. Oregon's energy policy is defined in ORS 469.010. That policy, as it relates to least-cost planning, is to encourage efficient use of energy and to promote energy conservation, sustainable energy resources, and cost-effective energy resources. The 1998-1999 IRP confirms PGE's commitment to promote and acquire cost-effective energy efficiency, albeit at a lower level. In its *1995-1997 Integrated Resource Plan*, PGE stated that it would participate in the development of renewable resource demonstration projects. In November 1998, Vansycle Ridge wind farm began its commercial operation testing. The company plans to continue to improve the efficiency of its existing hydro and thermal resources.

Commission Decisions on Parties' Comments

Staff proposes one recommendation to modify PGE's filed LCP. We agree that this modification to the plan should be adopted. We also request that PGE discuss how the move to a restructured environment and greater emphasis on distribution planning might be addressed in the next IRP, with such elements as net metering, distributed generation resources, automated meter reading, transmission reliability, changing technologies, and BPA issues. We will address the recommendations of the other parties below.

Conservation Acquisition. We agree with NCAC that PGE should focus on finding new opportunities and delivery methods that work in a competitive environment. Legislative action being considered now would allow competition among energy service suppliers for some of PGE's customers after October 2001. In the meantime, PGE should continue to pursue cost-effective conservation that can be delivered in an efficient manner.

Renewable Resources. RNP believes the company falls short of its commitment to renewables by not listing any potential replacement to the Columbia Hills Wind Project. However, we continue to believe, as we stated in Order No. 96-224, that while "it is important for PGE to proceed with its current wind pilot projects, and that the additional expense of these projects is justified by the resource assessment and confirmation knowledge which PGE will gain, we do not believe that current market conditions warrant further renewable resource acquisitions. If market conditions change to where renewables become more cost-competitive with PGE's other resource alternatives, then additional renewable resource acquisitions may be advisable." In addition, given the interest in moving to a competitive electric generation marketplace, it may no longer be clear that PGE's retail customers will benefit from PGE acquiring additional renewable resources at above market prices.

Conclusion

PGE's Least-Cost Plan is acknowledged with the recommendation adopted in this order. The plan meets both the procedural and substantive requirements of Order No. 89-507. Achievement of the objectives in the company's 1998-1999 Action Plan and the Commission recommendation can contribute meaningfully toward the development of future integrated least-cost planning efforts and acquisition of least-cost resources.

EFFECT OF THE PLAN ON FUTURE RATE-MAKING ACTIONS

Order No. 89-507 sets forth the Commission's role in reviewing and acknowledging a utility's least-cost plan, as follows:

The establishment of least-cost planning in Oregon is not intended to alter the basic roles of the Commission and the utility in the regulatory process. The Commission does not intend to usurp the role of utility decision-maker. Utility management will retain full responsibility for making decisions and for accepting the consequences of the decisions. Thus, the utilities will retain their autonomy while having the benefit of the information and opinion contributed by the public and the Commission.

Plans submitted by utilities will be reviewed by the Commission for adherence to the principles enunciated in this order and any supplemental orders. If further work on a plan is needed, the Commission will return it to the utility with comments. This process should eventually lead to acknowledgment of the plan.

Acknowledgment of a plan means only that the plan seems reasonable to the Commission at the time the acknowledgment is given. As is noted elsewhere in this order, favorable rate-making treatment is not guaranteed by acknowledgment of a plan. Order No. 89-507 at 6 and 11.

This order does not constitute a determination on the rate-making treatment of any resource acquisitions or other expenditures undertaken pursuant to PGE's 1998-1999 Integrated Resource Plan. As a legal matter, the Commission must reserve judgment on all rate-making issues. Notwithstanding these legal requirements, we consider the least-cost planning process to complement the rate-making process. In rate-making proceedings in which the reasonableness of resource acquisitions is considered, the Commission will give considerable weight to utility actions which are consistent with acknowledged least-cost plans. Utilities will also be expected to explain actions they take which may be inconsistent with Commission-acknowledged plans.

CONCLUSIONS

- 1. PGE is a public utility subject to the jurisdiction of the Commission.
- 2. PGE's 1998-1999 Integrated Resource Plan, with the modification adopted herein, reasonably adheres to the principles for least-cost planning set forth in Order No. 89-507. The plan will assist in ensuring that PGE's customers receive adequate service at fair and reasonable rates and is otherwise in the public interest.

ORDER

IT IS ORDERED that the 1998-1999 Integrated Resource Plan filed by Portland General Electric Company on September 1, 1997, as modified herein, is acknowledged in accordance with the terms of this order and Order No. 89-507.

Made, entered, and effective JUL 15 1999

Ron Eachus

Ron Eachus
Chairman

Roger Hamilton

Roger Hamilton
Commissioner



Joan H. Smith

Joan H. Smith
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to ORS 756.580.