

Schedule 123, Sales Normalization Adjustment Assessment

The Commission in Order No. 09-020 approved the Company's request to implement a decoupling mechanism as a two-year pilot. In the order, the Commission asked the Company to submit an assessment on the effectiveness of the decoupling¹ mechanism. Specifically, the Commission asked the Company to focus the assessment on the following topics and questions:

- Did the decoupling mechanism effectively remove the relationship between the utility's sales and profits?
- Did the mechanism effectively mitigate the utility's disincentives to promote energy efficiency?
- Did the mechanism improve the utility's ability to recover its fixed costs?
- Did the mechanism reduce business and other financial risk? If yes, please describe the business and financial risks that were impacted and the level of impact and effects on operations.
- What changes in the Company's culture or operating practices resulted from the implementation of the partial decoupling mechanism?
- To what extent did fixed costs covered by fixed cost-recovery factors increase with customer growth beyond what was included in the test-year load forecast in this proceeding?

Below is a brief description of Schedule 123 that implements decoupling followed by an assessment responsive to the questions posed by the Commission in OPUC Order 09-020. This assessment, based on 11 months experience supports continuation of Schedule 123 beyond January 31, 2011.

Description of Schedule 123 Sales Normalization Adjustment

PGE's Schedule 123 consist of two parts, the Sales Normalization Adjustment (SNA) applicable to PGE's residential and small non-residential customers and the Lost Revenue Recovery Adjustment (LRRRA) mechanism applicable to large non-residential customers with loads less than one mega-watt average (MWa). The LRRRA is only applicable to energy efficiency measures reported by the Energy Trust (ETO) attributable to the energy efficiency funding collected through Schedule 109, Energy Efficiency Funding Adjustment.

The approved mechanism decouples PGE's fixed cost recovery for residential (Schedule 7) and Small-Commercial (Schedule 32) customers and sales on a weather-adjusted basis. The mechanism compares per customer fixed cost revenues, approved for recovery in the most recent rate case, and actual weather adjusted volumetric revenues designed to recover fixed costs. This comparison is made by schedule each month for both Schedules 7 and 32. The LRRRA is based on the incremental energy efficiency savings achieved by eligible large non-residential customers relative to the amount projected in the most recent general rate case.

¹ OPUC Order 09-020 page 29.

With the approval of Schedule 123, the Company implemented the necessary accounting procedures to track and record the monthly differences between fixed charge revenues and weather normalized energy revenues for Schedules 7 and 32 based on the factors set out in the rate schedule. The procedures have operated as expected and there are no identified operational issues. The Company will file proposed Schedule 123 price changes by April 1, 2010 based on the first full year as specified in Schedule 123.

Commission Questions

Did the decoupling mechanism effectively remove the relationship between the utility's sales and profits?

Yes, partially. Although residential customer counts have been less than projected in UE 197, weather adjusted sales per residential customer have been higher than projected. This divergence from forecast will result in a refund to residential customers. Customer counts for Schedule 32 have also been below forecast, but contrary to Schedule 7, sales per customer have been less than forecast. This will result in a surcharge to Schedule 32 customers². Absent the partial decoupling mechanism PGE would not be refunding residential customers, nor recovering lost margins from small commercial customers.

Did the mechanism effectively mitigate the utility's disincentives to promote energy efficiency?

The Company's short-term experience indicates that the current mechanism helps to mitigate the disincentives to promote energy efficiency to customer classes covered under the decoupling mechanism. During 2009, PGE continued to support ETO energy efficiency programs and supported increased funding for energy efficiency (called SB 838 funding) for 2010. In 2009, the Company also issued a new Integrated Resource Plan (IRP) with aggressive energy efficiency (EE) goals. This IRP specifies a long-term goal of meeting approximately 23%³ of its future resource needs through energy efficiency. Additionally, PGE has helped to expand the number of net metering installations over the past two years. The Company also filed demand response pilots for both residential and large non-residential customers.

In its day-to-day operations, in collaboration with the Energy Trust, PGE continues to promote energy efficiency actions across all of its customer segments. For example, in 2009, PGE's monthly residential update letter included energy efficiency tips and/or actions reaching the residential customer base at least once a month. In April 2009, after the monthly news update featured the refrigerator-recycling program run by the Energy Trust, the number of refrigerators recycled increased by 115%⁴. On the non-residential side, the Company continued its Save More Matter More promotion and implemented targeted direct mail campaigns on energy efficiency.

² Final decoupling results for 2009 will be available by April 1, 2010.

³ PGE 2009 Integrated Resource Plan, page 317

⁴ Quarter 2, 2009 Report to OPUC by ETO August 14, 2009
http://energytrust.org/library/reports/2009_Q2_PUC0.pdf

What changes in the Company’s culture or operating practices resulted from the implementation of the partial decoupling mechanism?

Because the Company has been supporting energy efficiency for years, cultural or attitude changes are difficult to identify. Nevertheless, the existence of a decoupling mechanism allows for broader awareness within the Company regarding structural or behavioral changes in customer’s energy consumption. Examples include energy efficiency measures and renewable energy generation. Specific examples are given above.

Did the mechanism reduce business and other financial risk? If yes, please describe the business and financial risks that were impacted and the level of impact and effects on operations.

The impact of the Schedule 123 decoupling mechanism on the Company’s business and financial risks is difficult to assess, in particular given the brief experience. Nevertheless, the Company supports continuing decoupling as a reasonable implementation of good public policy. This question is further addressed in PGE Exhibit 1100.

Did the mechanism improve the utility’s ability to recover its fixed costs? To what extent did fixed costs covered by fixed cost-recovery factors increase with customer growth beyond what was included in the test-year load forecast in this proceeding?

The decoupling mechanism improves PGE’s ability to recover its per customer fixed costs at forecasted levels approved by the Commission in its most recent rate case (UE-197); however, Schedule 123 is not a full decoupling mechanism in that the mechanism reflects only weather-normalized sales and does not fully true-up fixed cost recovery because large nonresidential customers are not decoupled. Because PGE’s customer count was below that forecast in UE 197, PGE is unable evaluate whether fixed costs increased due to customer growth beyond what was included in the test-year load forecast.

Assessment

The Schedule 123 decoupling mechanism has operated in a manner consistent with the intent of the mechanism and PGE has not identified any problems in the mechanism. The approved decoupling mechanism appropriately aligns the incentives for both customers and the Company. Its continuation is warranted in order to properly align public policy and utility incentives with respect to energy efficiency.