



Discussion Document

Project Criteria for Customers of Energy Service Suppliers

Renewable Advisory Council

May 17, 2006

Staff has received two applications to support purchases of wind power off-site. In these cases, the customers would buy the wind energy from specific projects under contract through electricity service suppliers (ESS), who are alternatives to PGE or Pacific Power.

Energy Trust's Policy Committee has directed staff to solicit feedback on these applications in general and on the broader question of whether proposals involving an ESS should be treated in a different way.

After providing background on the issues and the proposals, this discussion document poses an initial set of questions to be addressed in a discussion at the next meeting of the Renewable Advisory Council (RAC) on May 17, 2006. RAC meetings are open to the public.

Background

Legislation signed into law in July of 1999, SB 1149, allows large nonresidential consumers options for purchasing electricity, including the ability to select "direct access" and purchase electricity through an alternate supplier. The alternate supplier must be certified with the OPUC if it wants to sell electricity to more than one direct access consumer. Consumers selecting an ESS still continue to receive distribution delivery services from the utility¹. The ESS completes required paperwork with the utility in order to participate with direct access consumers in the utility's service territory.

Unless a site is self-directing its public purpose charge payment with the State of Oregon, the law requires the ESS to collect the 3% public purpose charge from the consumers it serves and remit it to the utility. The utility then passes the funds through to the organizations administering the various public purpose programs, of which Energy Trust is one.

Following is some of the language of the law and the regulation with regards to public purposes (*underlining added by Energy Trust staff*):

Oregon Revised Statutes Chapter 757.612(2)(a)² states:

¹ The OPUC has a fact sheet that provides more information on this subject entitled "Electric Restructuring Nonresidential Consumers" available on their web site at:

http://egov.oregon.gov/PUC/consumer/nonresidential_fs.pdf

² You can find the a complete version of this ORS on the Oregon State Legislature's website at <http://www.leg.state.or.us/ors/757.html>

"(2)(a) Beginning on the date an electric company offers direct access to its retail electricity consumers, except residential electricity consumers, the electric company shall collect a public purpose charge from all of the retail electricity consumers located within its service area for a period of 10 years. Except as provided in paragraph (b) of this subsection, the public purpose charge shall be equal to three percent of the total revenues collected by the electric company or electricity service supplier from its retail electricity consumers for electricity services, distribution, ancillary services, metering and billing, transition charges and other types of costs included in electric rates on July 23, 1999."

The Oregon Administrative Rules 860-036-0480 subsections (1) through (4)³ provide that:

"(1) Each electric company that offers direct access to its retail electricity consumers and each electricity service supplier that provides electricity services to direct access consumers in the electric company's service territory will collect a public purpose charge from its retail electricity consumers for 10 years beginning on the date direct access is first offered.

(2) Except as provided in section (6) of this rule, electric companies and electricity service suppliers will bill and collect from each of their retail electricity consumers a public purpose charge equal to 3 percent of the total revenues billed to those consumers for electricity services, distribution, ancillary services, metering and billing, transition charges, and other types of costs that were included in electric rates on July 23, 1999.

(3) The electricity service suppliers will remit monthly to each electric company the public purpose charges they collect from the customers of each electric company.

(4) The electricity service suppliers will remit monthly the public purpose charges collected from direct service industrial consumers they serve to the electric company in whose service territory the direct service industrial site is located. "

Energy Trust Project Support

Through its various programs, Energy Trust supports a variety of renewable energy projects and applications, including: net metering, on-site generation projects and sales of project output to PGE or Pacific Power by a customer or developer. We are also willing to support projects developed by the utility to serve its customers in Oregon.

Depending on the program, customers must meet a set of criteria designed to ensure viable projects are installed for the longer-term benefit of ratepayers. In general, a project must be:

1. Owned or fully controlled by the applicant.
2. Considered a long-term resource, typically with an expected life of at least 15 years.
3. Priced at customary and usual costs for the installation or able to show significant demonstration value for higher than normal costs.
4. In need of Energy Trust support, defined through the above-market policies and methodologies
5. Able to comply with Energy Trust's green-tag policies.

³ You can find the complete version of this OAR on the Oregon Secretary of State's website at http://arcweb.sos.state.or.us/rules/OARS_800/OAR_860/860_038.html

6. A completely new project or and a new addition or upgrade to an existing project that provides expanded generation.
7. Capable of being operated and maintained by the owner for the life of the project.

Energy Trust staff have not made an explicit eligibility distinction about which renewable energy programs are open to what type of customer. Energy Trust has policies to address customers eligible to self direct their own funds (whether an ESS customer or not), but does not have a policy otherwise restricting participation by an ESS customer that is paying the public purpose charge.⁴

ESS Applications Received

Energy Trust has received two similar proposals to support wind power from ESS customers. Rather than being on-site generation, the applicants propose to buy their energy supply from a new, off-site project and have it shaped and transmitted by Sempra Energy Solutions (an ESS) to serve their loads.

Sempra will secure transmission and proposes to secure shaping and integration services through Powerex. Distribution of the power to the customers' various metered loads would continue to be PGE's responsibility and they would be compensated for this under existing OPUC tariffs. Both customers would continue to pay the full public purpose charges.

Provided the projects can pass the Energy Trust's general criteria and the contracts ensure the power is delivered for a customer's use, both applicants have argued that the effect is similar to dedicated on-site generation. If we accept this, then the above-market methodologies used in on-site and net-metering analyses can be used to provide estimates of any required funding to support the projects.

Evaluations of the proposals and discussions with the parties involved have led staff to believe that these are credible proposals. The first proposal came from the City of Portland. The second is from a customer that wants to remain anonymous at this time. If either or both of these proposals are considered further, they would still need to follow the Energy Trust's standard review and approval processes.

CITY OF PORTLAND. The City of Portland wants to eventually serve all of its energy demand from renewable sources.⁵ They propose that a large part of this (92%) be served by a dedicated wind project in Eastern Oregon. The City proposes to switch about 15 aMW to wind power. It will take at least 50 MW of wind to generate this much energy annually.

The power would be provided through Sempra under a 15-year contract. Sempra, in turn, would have a matching contract with PPM Energy for a wind project to be built in 2007. The City selected the Sempra proposal through a competitive RFP in 2005. According to the City's Office of Sustainability, PGE bid into the RFP .

⁴ For example: Energy Trust's Production Efficiency Program has previously provided funding towards a customer's significant energy efficiency project designed to overhaul its on-site energy demand. The customer ceased self-direction and agreed to pay the public purpose charge for a certain time period as required by Energy Trust's self-direction policy. That customer later shifted its electricity load from PGE to an ESS (and is still paying the public purpose charge).

⁵ We have previously provided funding towards a portion of the above-market costs for a 10 kW wind turbine for the City and have agreed to support their 1.5 MW biogas generation project to be on-line in 2007. Both are for on-site use.

Using existing methodologies, staff has done a preliminary analysis of whether there are above-market costs for the City's proposal. After estimated tariff credits,⁶ the net retail rate for the City for the load switched to dedicated wind sources would be higher than the expected PGE retail rates over the next 15 years. The differential is due to a higher cost for wind power in the new power than the underlying PGE blend of resources.

ANONYMOUS CUSTOMER. The second application is from a large customer of Sempra, who has already left its utility and now wishes to switch their power supply to a dedicated wind source. The customer wants to be confidential at this point. They would enter into a five year purchase of wind power from a new project, possibly in Eastern Washington.

The mechanics of delivering and shaping the wind power are similar to the City's. It would take a 50-60 MW dedicated wind project to serve the anonymous customer's aggregated load.

While this is like the proposal from the City, staff has indicated to Sempra that a five year project commitment does not qualify as something delivering long-term benefits to ratepayers. We also expressed a preference for an Oregon project, consistent with our policies. Sempra and the customer have indicated a willingness to work with us on these issues. Staff has not concluded an above-market analysis of the proposal to determine whether funding from the Energy Trust is necessary.

Initial Questions

These applications may represent a new way for customers and communities with limited local renewable resources to participate directly in clean generation and the stable prices they promise. The Policy Committee asked staff to bring this and other questions to the RAC for input.

The following is an initial list of questions developed by staff to guide the discussion at the next RAC meeting on May 17, 2006 at Energy Trust offices. The meetings start at 9:30 AM. The agenda will be posted to the Energy Trust's website at www.energytrust.org.⁷

1. Should a customer of an ESS that is paying the public purpose charge be eligible to participate in Energy Trust renewable energy programs?
2. If ESS customers paying are eligible to participate in Energy Trust programs, should their participation level be equal to that of customers receiving their electricity from the utilities, or should there be additional criteria established for ESS customers? If so, why?
3. Are either or both of the current applications summarized above worthwhile, new opportunities for the Energy Trust?
4. Does funding the above-market cost for an ESS customer for renewable generation promote switching from the utility? If so, should this affect Energy Trust's willingness to support it?

⁶ See www.portlandgeneral.com/about_pge/regulatory_affairs/pdfs/schedules/sched_129.pdf.

⁷ Click on the 'About Energy Trust' icon and then look under the section titled, 'Public Meetings' for the notices on Renewable Advisory Council meetings

5. If these projects were funded, by the same logic should Energy Trust fund voluntary green power purchases, assuming these voluntary programs met the same minimum criteria as funding for other projects?
6. Is an off-site renewable project, with power dedicated and delivered to the customer, another form of investment worth supporting by the Energy Trust?
7. Are there additional criteria for off-site projects necessary to ensure benefits to ratepayers similar to utility, QF and on-site projects?

If you have additional questions please provide them before May 12, 2006 to Peter West. Additional questions will be posted to the e-mail distribution list for the RAC. Peter can be reached at: peter.west@energytrust.org or 503-445-7609.