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October 20, 2011

Via Electronic and U.S. Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem, OR 97308-2148

Re: In the Matter of the PUBLIC UTILITY COMMISSION OF OREGON
Staff Investigation into Cost Methods for Use in Developing Electric Rate
Spreads
Docket No. UM 1415

Dear Filing Center:

Enclosed please find an original and five (5) copies of the Reply Comments on behalf of the Industrial Customers of Northwest Utilities in the above-referenced docket.

Thank you for your assistance, and please do not hesitate to contact our office if you have any additional questions.

Sincerely yours,

/s/ Sarah A. Kohler
Sarah A. Kohler

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Reply Comments on behalf of the Industrial Customers of Northwest Utilities upon the parties, on the service list, by causing the same to be deposited in the U.S. Mail, postage-prepaid, where paper service has not been waived.

Dated at Portland, Oregon, this 20th day of October, 2011.

/s/ Sarah A. Kohler
Sarah A. Kohler

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1415

In the Matter of the)	
)	
PUBLIC UTILITY COMMISSION OF)	REPLY COMMENTS ON THE STRAW
OREGON)	PROPOSAL OF INDUSTRIAL
)	CUSTOMERS OF NORTHWEST UTILITIES
Staff Investigation into Cost Methods for Use)	
<u>in Developing Electric Rate Spreads.</u>)	

I. INTRODUCTION

The Industrial Customers of Northwest Utilities (“ICNU”) submits these reply comments to the Public Utility Commission of Oregon (“OPUC” or the “Commission”) regarding the Commission’s draft straw proposal outlined in Order No. 11-255 in this docket. ICNU appreciates the opportunity to respond to the issues raised in the workshop as well as the Commission’s clarification that it will not impose mandatory time-varying rates in this docket.

II. COMMENTS

The Commission has asked the parties to address six specific issues in these Reply Comments and to provide any additional comments addressing the filings of other parties. As a threshold matter, ICNU wishes to reiterate its position that time-varying rates should not be adopted unless demonstrable systems benefits will outweigh the costs to the utility and its customers. To the extent that Staff believes that time-varying rates should be considered whether or not they significantly impact loads, ICNU disagrees. Rather, as PGE states, “if the anticipated benefits do not outweigh the costs of implementation, the case for time-varying

prices may prove to be specious.”^{1/} Any cost benefit analysis should consider both the costs to the utility and those borne by customers who must alter their behaviors.

1. Factors Proposed by Other Parties

Both PacifiCorp and PGE suggest that acceptance of time-varying rates by customer classes should be considered.^{2/} CUB notes that utility practices unacceptable to customers have often been changed by legislation or initiative.^{3/} ICNU agrees that onerous rate structures that are not acceptable to customers should not be imposed.

PGE states that the potential for time-varying rates to create an incentive for customers to switch to direct access should be considered as a separate factor. To the extent that this suggests that a time-varying rate should be revenue neutral for the utility, ICNU agrees that this is an important consideration. Likewise, PGE’s concerns regarding revenue attrition and volatility are well taken and addressed in ICNU’s Opening Comments. Additionally, PGE raises concerns about the complexity of time-varying rates and the availability of cost effective alternatives such as direct load control. Again, ICNU agrees that these considerations militate against time-varying rates, but understands them to be essential issues to any discussion of the Commission’s factors F-2 and F-6.

Staff suggests that if the Commission declines to consider mandatory time-varying rates outside the context of an IRP, an additional factor should evaluate the “level to which fairness and equity between customers would be improved through a time-varying rate.”^{4/}

This appears to follow from Staff’s concern with intra-class subsidization. While ICNU agrees

^{1/} Opening Comments of PGE at 1.

^{2/} Opening Comments of PGE at 4; Opening Comments of PacifiCorp at 3.

^{3/} Opening Comments of CUB at 28.

^{4/} Opening Comments of Staff at 5.

that rates should be based on the cost of service, the extensive evidence regarding the inelasticity of low-income customers and many industrial customers, as well as the evidence presented by several parties regarding the negative impacts of time-varying rates on vulnerable groups, demonstrates that time-varying rates should be considered only for economic reasons. Time-of-use (“TOU”) rates should not be used to engineer social justice or because they satisfy theoretical notions regarding how utility costs should be allocated to customers.

2. Evaluation of Seasonal Rates

Like TOU rates, seasonal rates should be evaluated against identifiable cost differences. TOU rates are more refined than seasonal rates because they track changes in energy costs with much more granularity. Accordingly, because PacifiCorp and PGE both have limited TOU rates for industrial customers, including peak demand charges and on/off-demand energy charges, there is no need to add seasonal differentials to industrial rates.

Additionally, because of the structure of northwest power markets, seasonal rates could end up giving incorrect price signals. The Western Electricity Coordinating Council has gas generation on the margin during most of the year. The only exception is the short period during which hydropower from the spring/summer runoff displaces thermal generation. Unless this period of lower marginal costs is aligned with a seasonal rate schedule, the wrong price signal could be sent during the time that power in the region is the cheapest and most abundant. Yet, the actual timing of spring runoff is highly unpredictable. It is unlikely that a seasonal rate would properly align with this period, given that the runoff event may occur as early as April or as late as July.

3. Factors for Evaluation of Voluntary Time-Varying Rates

As noted, industrial customers of both PacifiCorp and PGE already have a TOU differential in place through on-peak demand charges and through current on/off-peak energy prices. Additional differentials are not necessary at this time. Nonetheless, any proposed time-varying rate should be based upon rigorous studies and known, quantifiable cost benefits.

4. Cost of Service Data

In response to the Commission's request for detailed cost of service data: 1) PGE states that most of the requested data is available; 2) PacifiCorp claims that it would be too difficult and costly to produce the requested data; and 3) Idaho Power responds that reliable methods for creating the data do not exist. ICNU is unfamiliar with the data available to each individual utility and so has no comment on this issue at this time. Nonetheless, the drastically different responses submitted by each of the utilities reinforce the argument that time-varied rates should be considered on a utility-specific basis.

5. Proper Venues for Systematic Analysis of Time-Varying Rates

ICNU agrees with PacifiCorp that the level of rigorous, individual analysis required to support the imposition of time-varying rates suggests that such rate structures are best presented in rate case filings, where stakeholders have the time and venue to scrutinize the underlying data.^{5/} To the extent that the Commission wishes utilities to continuously review the feasibility of time-varying rates, compliance filings in this or another docket may be effective. Alternately, a Commission policy statement that requests utilities to address time-varying rates in future rate cases, whether or not they are proposed, may ensure such review.

^{5/} Opening Comments of PacifiCorp at 2.

6. What Time-Varying Rates Should Be Examined?

PGE and PacifiCorp have tariff structures in place that include time-varying rates for industrial customer that are very typical and consistent with industry standards. ICNU believes that no changes are required for industrial customers at this time.

IV. CONCLUSION

ICNU appreciates the opportunity to submit these Reply Comments and looks forward to participating in the Commission's further consideration of this docket.

Dated this 20th day of October, 2011.

Respectfully submitted,

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