

ORDER NO. 96-337

ENTERED DEC 30 1996

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**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 827

In the Matter of an Investigation of Methods  
for Estimating the Marginal Cost of Service  
For Electric Utilities.

ORDER

**DISPOSITION: INVESTIGATION OPENED**

This order is entered under ORS 756.515 to open an investigation of methods for estimating the marginal cost of service for electric utilities.

The Commission has long used marginal cost estimates to guide rate spread and rate design for electric utilities. Studies submitted by Portland General Electric Company (PGE) and PacifiCorp in recent rate cases indicate that residential customers pay a smaller share of the marginal cost of service than industrial customers. The Citizens' Utility Board challenges this result, arguing that the methods used to classify distribution costs as demand-related or customer-related assign too much cost to residential service.

The work group formed by PGE under Order No. 95-322 (Docket UE 88) to examine methods for estimating marginal cost has produced useful information. However, consensus has not been reached on the appropriate treatment of distribution costs.

The Commission anticipates this proceeding to result in an order adopting various methods for determining generation, transmission, and distribution marginal costs. Utility-specific marginal cost estimates and rate spread and rate design decisions will be made in subsequent rate cases and other proceedings as needed.

**ORDER**

IT IS ORDERED that an investigation of methods for estimating marginal costs for electric utilities shall be opened under ORS 756.515, and shall be docketed as UM 827.

Made, entered and effective \_\_\_\_\_.

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**Joan H. Smith**

Chairman

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**Ron Eachus**

Commissioner

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**Roger Hamilton**

Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order pursuant to ORS 756.580.