BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 172

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In the Matter of	)
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PORTLAND GENERAL ELECTRIC,	)
	)
2006 Resource Valuation Mechanism.	)
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	)

PREHEARING BRIEF

OF THE

CITIZENS' UTILITY BOARD OF OREGON

August 25, 2005

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OF OREGON

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In the Matter of PORTLAND GENERAL ELECTRIC, 2006 Resource Valuation Mechanism.	PREHEARING BRIEF OF THE CITIZENS' UTILITY BOARD OF OREGON

I. Introduction

In summary of the Citizens' Utility Board's positions on PGE's 2006 resource valuation mechanism (RVM), we present four issues: double-counting the Sullivan Plant outage; the hydro adjustment that violates the 2004 RVM stipulation; customers inappropriately paying parts of the capacity tolling contracts; and using appropriate price curves in the calculation of customer rates after the Commission has approved the Company's RVM.

II. Issues

A. The Sullivan Plant Outage

In the 2006 RVM, PGE projects a planned outage for its Sullivan hydro facility, and includes a charge to customers for replacement power. However, PGE included a planned outage for its Sullivan hydro facility and charged customers for replacement power in its 2005 RVM as well. CUB/100/Jenks/2, PGE/100/Tinker-Niman-Tooman/19. In the 2005 RVM order (Order No. 04-573) the Commission approved costs totaling $2.128 million to replace power while Sullivan was shut down for four months. PGE did not shut Sullivan down for maintenance in 2005, but it did collect the money for the shutdown. Now, PGE is asking customers to pay again for an event they have already paid for once. CUB's clean solution is to eliminate the $2.725 million that PGE includes in the 2006 RVM for the duplicate Sullivan outage.

First, customers should not pay twice for the same planned maintenance. We paid once in 2005, but the Company changed its schedule. CUB's solution to remove the costs of the Sullivan outage in the 2006 RVM is appropriate, because 1) it recognizes that customers have already paid for the Sullivan outage, and 2) it avoids any taint of retroactive ratemaking.

Second, the 2005 Sullivan outage, as it was included in the 2005 RVM, was a planned and measurable outage. It turned out to be neither, yet PGE wants to play the same card again. The Commission ought to decide that "known and measurable" has a clearly defined meaning. We are willing to grant PGE its first application of the "known and measurable" standard; however, that standard is now being misused and we ask the Commission to fix the problem.

Third, to allow PGE to recover $2.725 million for the 2006 outage, or even the difference between the 2005 and the 2006 replacements costs, as Staff suggests, would provide precisely the wrong incentive to PGE. The messages that would be sent are: plan for shut-downs but don't shut down, over-plan outages, and/or err on the side of including outages in the RVM.

Fourth, under traditional normalized ratemaking, not only would this kind of double-counting not be allowed, but such an event would not be included in base rates at all. In a general rate case, we normalize the forecast with Type I and Type II adjustments, remove non-recurring events, and use rolling averages to account for plant maintenance. While the RVM was presented as a way to update a handful of costs that are already in rates (in order to facilitate direct access), it has now gone beyond that original purpose, and allows the Company to recover costs that a utility would not otherwise recover without filing for a deferral.

B. Hydro Adjustment

PGE includes a correction to a hydro enhancement in its proposed 2006 RVM that increases power costs by $2.6 million. PGE/100/Tinker-Niman-Tooman/15-17. Yet in 2003, the parties in this case signed a stipulation stating that, other than a few identified enhancements, the parties would not propose any other enhancements to Monet for the 2005 and 2006 RVMs. UE 149 Stipulation, cited at CUB/100/Jenks/6. An enhancement by any other name should still be prohibited. PGE's "correction" is an enhancement, and is prohibited by the 2004 RVM stipulation.

The 2004 RVM stipulation speaks to the parties' frustration with the Company constantly fiddling with the model and the inputs, almost exclusively to the Company's advantage. The 2004 RVM stipulation was an effort to put an end to this practice, and yet even with the stipulation, the practice continues.

C. Capacity Tolling Contracts

PGE has included in the 2006 RVM two capacity tolling agreements that are not expected to provide a benefit to customers under normalized conditions, would provide a benefit to shareholders under abnormal circumstances, and would cost ratepayers $2.87 million in increased power costs under any and all circumstances.

As these contracts are primarily used for hedging the Company's risk or providing a reward when market conditions are outside the normal range, customers should not pay for them. We already pay the Company to manage these risks in rate of return; we should not also have to pay to hedge those risks for the shareholder.

D. Forward Price Curve

The standard RVM practice is that once the Commission issues an order approving the RVM, after the record is closed, the Company updates the RVM using an internally-generated price curve. There is no documentation supporting the price curve, the information is confidential, and there is no formal step to review the information. It is silly, and a deviation from thoughtful regulatory practice, to allow the Company an opportunity to alter rate-making outcomes outside of the regulatory scheme. But that is what we have.

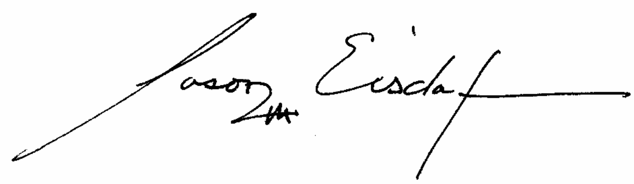
Were the Commission to require the use of an independently-generated price curve, it would reduce the possibility of post-order gaming, while also increasing transparency and confidence in the process.

III. Conclusion

CUB identifies these four changes for the 2006 RVM to establish more accurate power costs through the RVM process. We think the Commission should remove $2.725 million for the second planned Sullivan outage, $2.6 million for the prohibited hydro enhancement, and $2.87 million in capacity tolling agreements that benefit the shareholders. Finally, the Commission should correct the treatment of post-order forward price curves, making them independently generated.

In addition, however, these issues call into question whether the RVM is doing what it is supposed to do, or something more and unintended. The issues we cited were double-counting, an annual opportunity for the Company to search for adjustments that benefit shareholders, inclusion of costs for ratepayers that reduce the Company's risk and increase potential benefit to shareholders, and policies that open the door for gaming.

Respectfully Submitted,
August 25, 2005,



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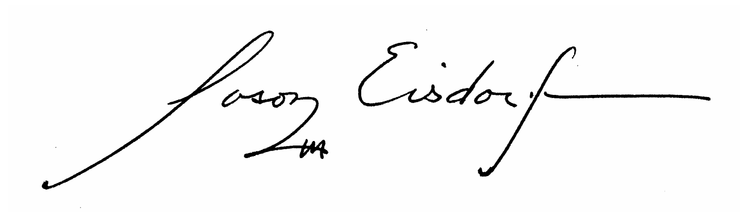
CERTIFICATE OF SERVICE

I hereby certify that on this 25th day of August, 2005, I served the foregoing Prehearing Brief of the Citizens' Utility Board of Oregon in docket UE 172 upon each party listed below, by email and U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,



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