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October 2, 2008

Via Electronic and US 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 PUBLIC UTILITY COMMISSION OF OREGON Investigation into Forecasting Forced Outage Rates for Electric Generating Units
Docket No. UM 1355

Dear Filing Center:

Enclosed please find an original and one copy of the Outage Proposal on behalf of the Industrial Customers of Northwest Utilities in the above-referenced docket.

Thank you for your assistance.

Sincerely yours,

/s/ Allison M. Wils
Allison M. Wils

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Outage Proposal of the Industrial Customers of Northwest Utilities upon the parties on the service list, shown below, by causing the same to be sent by electronic mail to all parties, as well as, deposited in the U.S. Mail, postage-prepaid, to parties which have not waived paper service.

Dated at Portland, Oregon, this 2nd day of October, 2008.

/s/ Allison M. Wils
Allison M. Wils

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(W) = Waive Paper Service

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1355

In the Matter of	)	
	)	OUTAGE PROPOSAL OF THE
THE PUBLIC UTILITY COMMISSION OF OREGON	)	INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES
	)	
Investigation into Forecasting Forced Outage Rates for Electric Generating Units.	)	
	)	

I. INTRODUCTION

Pursuant to Administrative Law Judge Arlow's July 14 Scheduling Order, the Industrial Customers of Northwest Utilities ("ICNU") submits the following forced outage proposal. ICNU proposes specific methodologies that the Oregon Public Utility Commission ("OPUC" or the "Commission") should adopt for computing and applying outages rates in general rate cases, transition adjustment methodology proceedings, annual update tariff cases, renewable energy adjustment clause proceedings, and other relevant rate proceedings. ICNU proposes that outage rates should be based on actual conditions, but modified to provide appropriate incentives for utility actions, to normalize rates, and to remove imprudent, unreasonable and negligent costs. As a final schedule has not been set in this proceeding, ICNU reserves the right to add new issues and proposals for the calculation of outage rates.

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II. OUTAGE RATE PROPOSAL

1. Outage Rates for Existing Resources

Outage rates should be based on a single or multi-year rolling average when valid historical data is available. The period should reflect traditional ratemaking concepts, including normalization. The period should also be determined by a sound statistical methodology, if possible. ICNU proposes a four year default period, unless statistical analysis shows compelling support for another time period.

2. Outage Rates for New Resources

Outage rates determined in the integrated resource planning ("IRP") process and competitive bid evaluations should be used without any adjustments until sufficient historical data is available. The outage rates for new wind resources should be based on manufacturer supplied data or other credible sources until sufficient historic data is available. Historical data for the first few years, however, should not be used in the computation of outage rates because poor performance during initial operation is common.

ICNU's proposal should encourage utilities to perform realistic IRP studies and request for proposal ("RFP") studies that reflect appropriate outage rates that will be used to compare purchase and build resource acquisition options. Generator outage rates are often higher during initial operation than in later years; however, these high initial outage rates are often not reflected in the IRP and RFP processes. Utilities should be encouraged to use accurate outage rate assumptions in their IRPs and RFPs by

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requiring that these outage rates be used if a new generation resource experiences higher outages during its initial operations.

3. Adjustments to Outage Rates to Reflect Actual Operations

Planned and forced outage rate modeling should be coordinated and consistent so that they use the same time period. Planned outage scheduling should represent past patterns during the historical period.

Annual, not monthly, average outage rates should be used unless there is statistical data or a sound engineering basis for monthly outage rates. Annual outage rates should differ between weekend and weekdays, or between light load hours and heavy load hours.

4. Outages Rates Should Be Adjusted to Remove Imprudent Costs and Provide Appropriate Penalty Incentives

Imprudently incurred costs are not recoverable in rates and must be removed from utility outage rates. Re PacifiCorp, Docket No. UE 191, Order No. 07-446 at 20 (Oct. 17, 2007). In addition, it is appropriate to adjust outage rates to provide meaningful penalty incentives for utilities to improve their operations. See id. at 21.

Imprudent outages should be removed from outage rate calculations. In such cases, a full single or multi-year period of statistical data should be applied in replacement for the imprudent outage. The Commission should formalize standards for prudence determinations of specific outages. The outages disallowed in UE 191 could provide a template for these standards.

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Long outages are inherently anomalous and should be excluded from the multi-year outage data. Utilities should be required to remove all unplanned outages over four weeks from outage rates used in normalized ratemaking. See Re PacifiCorp, Docket No. UE 191, Order No. 07-446 at 21.

If a plant has a history of poor performance, the utility should be required to use the average national outage rate for similar units, or explain why the low rate is not the result of poor management or imprudent action. This will provide utilities with the incentive to efficiently operate their generating units and/or provide strong initial evidence in rate proceedings to justify poorly performing units.

Utility incentive compensation, if any, directed at improving outages should be accounted for in outage rate calculations. Power cost studies should include an improvement in outage rates if the utilities provide incentive compensation to improve their outage rates.

The costs of outages that have been recovered through a specific deferral mechanism should be removed from the calculation of outage rates to prevent double recovery. The utilities have the opportunity to recover these costs if they seek amortization of the deferred amounts.

5. Power Cost Modeling Issues

Calculations of outage rates should be mathematically accurate and based on accepted methodologies. Utilities should be required to propose any changes to the methodology for calculating outage rates in their direct testimony in a rate proceeding,

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and utility rebuttal filings should be limited to correcting errors and responding to Staff and intervenor proposals.

Ad hoc adjustments to outage rates should only be applied if supported by sound analysis, and if the adjustment can be demonstrated not to overstate the cost impacts. Utilities should be required to support any ad hoc adjustments to outage rates in their initial rate filing, and prohibited from making such adjustments in their rebuttal filings.

Outage rates should be reflected properly in all aspects of power cost modeling, including but not limited to the duration of minimum loadings and heat rates. For example, Portland General Electric Company's Monet model currently accurately models minimum loadings and heat rates in a reasonable manner.

Outage rates for units with low capacity factors should be represented using the Equivalent Forced Outage Rate demand ("EFOR-d") methodology. The EFOR-d is an industry standard measure of a peaking unit electrical generating plant reliability that determines the likelihood the resource will be available during its normal "demand period." Deferrable outages can cause outage rate calculations for low capacity factor plants to be highly unreliable and skew power cost results.

Finally, modeling of outage rates for hydro units, if used at all, should be based on sound analysis. This analysis should be similar to the methods used for thermal units. If hydro unplanned outages are modeled, the utilities should be required to demonstrate the reasonableness of the method used.

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III. CONCLUSION

ICNU has proposed specific principles and methodologies that the Commission should adopt in rate proceedings. ICNU looks forward to working with the parties in this proceeding to jointly develop outage rate principles, and (if necessary) formally supporting its proposals with testimony, comments and/or briefs after a schedule is adopted.

Dated this 2nd day of October, 2008.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.

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