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Filing Center
Public Utility Commission of Oregon
201 High Street, SE Ste. 100
Salem, OR 97301

RE: UE 308 In the Matter of Portland General Electric Company's 2017 Annual Power Cost Update Tariff (Schedule 125)

Attention Filing Center:

Enclosed please find one original and five copies of PGE's Supplemental Testimony with Confidential Exhibits and Confidential Work Papers submitted and filed in Docket No. UE 308. These confidential materials are subject to Protective Order No. 16-137 and are provided on CD only. This Supplemental Testimony provides information concerning the draft term sheet for PGE's long-term gas hedging proposal and provides the estimated impact on PGE's 2017 Net Variable Power Costs.

If you have any questions or require further information, please contact me at (503) 464-7580 or Alex Tooman at (503) 464-7623.

Sincerely,


Patrick G. Hager
Manager, Regulatory Affairs

PGH/sp

cc: UE 308 Service List

I. Introduction

1 **Q. Please state your names and positions with PGE.**

2 A. My name is Scott Russell. I am a Specialist with the Structuring and Origination
3 Department at PGE.

4 My name is Alex Tooman. I am a Project Manager with Regulatory Affairs at PGE.

5 Our qualifications appear at the end of PGE Exhibit 300.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of our testimony is to submit the term sheet for the proposed transaction
8 between the Portland General Gas Supply Company (PGGS) and [REDACTED]

9 [REDACTED] If approved, this transaction will provide PGE with long-term
10 gas supply as previously discussed in PGE Exhibits 100, 200, and 300. We also provide the
11 following quantitative information as derived from the current terms:

- 12 • PGGS's revenue requirements over the transaction's 30-year life.
- 13 • A comparison of the long-term projected cost versus the long-term benchmark price
14 to demonstrate the transaction's cost effectiveness.
- 15 • The 2017 projected gas volume and cost per MMBtu.

16 **Q. Please summarize the information PGE is providing with this supplemental testimony.**

17 A. Confidential Attachment 601C provides the draft term sheet for the proposed transaction.¹
18 This transaction represents a non-operating working interest purchase agreement between
19 PGGS (PGE affiliate and gas resource buyer) and [REDACTED] (seller/operator) to
20 provide PGE with a long-term, cost-of-service gas supply. Although all elements of the

¹ The term sheet is non-binding subject to definitive agreements.

1 term sheet have not been fully resolved, the contemplated transaction between PGE and

2 [REDACTED] would have the following key terms and conditions:

3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 • A 2017 drilling program for [REDACTED]
7 [REDACTED]
8 [REDACTED]

9 • The potential for 2018-2022 drilling programs.

10 • [REDACTED]
11 [REDACTED].

12 **Q. Please summarize the primary characteristics of a non-operating working interest.**

13 A. As noted in PGE Exhibit 300, a non-operating working interest involves direct ownership of
14 natural gas reserves along with related wells, production assets, property, and facilities.
15 PGGS would also have ownership voting and auditing rights, be responsible for its share of
16 costs, and receive a proportional share of produced gas. Because it is a non-operating
17 working interest, PGGS would not be involved in day-to-day gas production or field
18 operations.

19 **Q. How did PGE select the specific transaction represented by the draft term sheet?**

20 A. As discussed in PGE Exhibit 300, we conducted a thorough market assessment and outreach
21 with multiple, concurrent, bi-lateral discussions with 40+ producers in the US Rocky
22 Mountain region (US Rockies) regarding the potential for a non-operating working interest.
23 We also met with several banks and energy marketing companies that presented PGE with

1 contract or financial hedging alternatives. Based on a detailed evaluation of all the available
2 transactions and the respective counterparties, we determined that the proposed structure
3 represents the long-term gas hedge that provides the best value for customers.

4 **Q. Has PGE confirmed the estimated amount of gas reserves at the proposed location?**

5 A. Yes. Netherland, Sewell, and Associates, Inc., an independent, expert reservoir engineering
6 firm, has evaluated the location and confirmed the estimated amount of gas production and
7 reserves.

8 **Q. How much would PGE pay for this resource under the proposed transaction?**

9 A. PGGS would make an initial investment of [REDACTED] for the [REDACTED] and
10 would pay up to [REDACTED] of the total drilling, completion and facilities costs for the [REDACTED]

11 [REDACTED]
12 [REDACTED]

13 **Q. [REDACTED] ?**

14 A. [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

18 **Q. [REDACTED]**

19 A. [REDACTED]
20 [REDACTED].

21 **Q. [REDACTED]**

22 A. [REDACTED]
23 [REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 Q. [REDACTED]

21 [REDACTED]

22 A. [REDACTED]

1 **Q. Do you have a revenue requirement for the proposed transaction?**

2 A. Yes. Confidential Attachment 602C provides a summary of the preliminary revenue
3 requirements based on the draft term sheet.

4 **Q. How does the Long-Term Projected Cost of the investment compare to the current
5 Long-Term Benchmark Price?**

6 A. As described in PGE Exhibit 300, in order for the proposed transaction to be considered
7 cost-effective, the Long-Term Projected Cost of the investment must be at or below the
8 current Long-Term Benchmark Price [REDACTED]

9 [REDACTED]
10 [REDACTED]

11 **Q. What cost per MMBtu and volume of gas would you incorporate into the MONET
12 model for the 2017 AUT based on the current proposal?**

13 A. Based on the current proposal, we would include approximately [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]

19 **Q. Does this complete your testimony?**

20 A. Yes.

List of Exhibits

<u>PGE Exhibit</u>	<u>Description</u>
601C	Draft Term Sheet between PGE/PGGS and [REDACTED]
602C	Summary Revenue Requirements