

June 3, 2016

Email / FedEx puc.filingcenter@state.or.us

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,

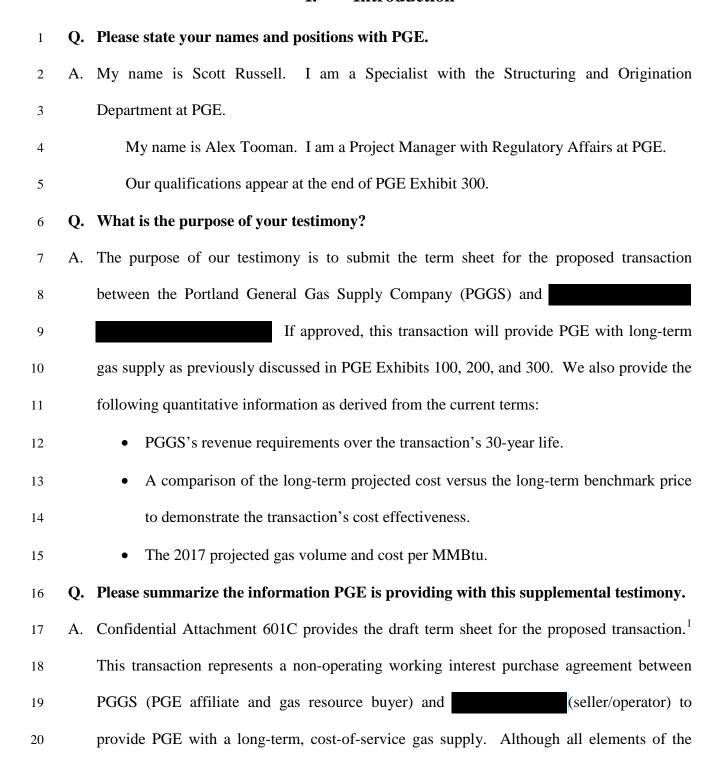
Patrick G. Hager

Manager, Regulatory Affairs

PGH/sp

cc: UE 308 Service List

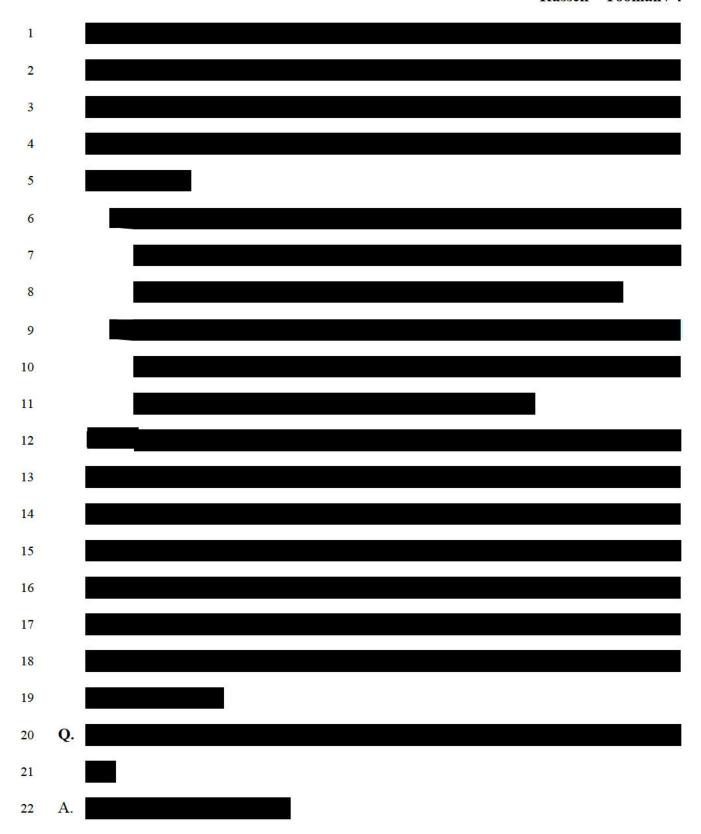
## I. Introduction



<sup>&</sup>lt;sup>1</sup> 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		would have the following key terms and conditions:
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4		
5		
6		• A 2017 drilling program for
7		
8		
9		The potential for 2018-2022 drilling programs.
10		•
11		
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

contract or financial hedging alternatives. Based on a detailed evaluation of all the available transactions and the respective counterparties, we determined that the proposed structure represents the long-term gas hedge that provides the best value for customers. Q. Has PGE confirmed the estimated amount of gas reserves at the proposed location? A. Yes. Netherland, Sewell, and Associates, Inc., an independent, expert reservoir engineering firm, has evaluated the location and confirmed the estimated amount of gas production and reserves. Q. How much would PGE pay for this resource under the proposed transaction? A. PGGS would make an initial investment of and would pay up to of the total drilling, completion and facilities costs for the 



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.		
9				
10				
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		
14				
15				
16				
17				
18				
19	Q.	Does this complete your testimony?		
20	A.	Yes.		

## **List of Exhibits**

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