



Portland General Electric Company
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Douglas C. Tingey
Assistant General Counsel

April 11, 2005

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
PO Box 2148
Salem OR 97308-2148

Re: In the Matter of PORTLAND GENERAL ELECTRIC
Application for a Hydro Generation Power Cost Adjustment Mechanism
OPUC Docket No. UE 165

Attention: Filing Center

Enclosed for filing in the above-captioned docket is a Stipulation between Portland General Electric and Oregon Public Utility Commission Staff. This document is being filed by electronic mail with the Filing Center.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance. If you have any questions, please do not hesitate to call.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas C. Tingey", written in a cursive style.

DCT:am

cc: UE 165 Service List



**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 165

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	STIPULATION
Application for a Hydro Generation Power)	
Cost Adjustment Mechanism.)	

This Stipulation ("Stipulation") is between Portland General Electric Company ("PGE") and Staff of the Public Utility Commission of Oregon ("Staff). Capitalized terms used in this Stipulation have the meanings ascribed to them in this Stipulation.

On May 18, 2004, PGE filed an Application for a Hydro Generation Power Cost Adjustment Mechanism, requesting approval of tariff schedule 128. Tariff schedule 128 is an automatic adjustment clause under ORS 757.210. PGE sought this tariff to track the costs and value associated with hydro generation assets and contracts.

PGE filed its Direct Testimony in this docket on November 17, 2004. The filing consisted of seven pieces of testimony by eight different witnesses supporting the need for the proposed tariff mechanism. In addition, on December 30, 2004, PGE filed an Application for Deferral of Costs and Benefits Due to Hydro Generation Variance, seeking to defer the costs and benefits caused by hydro generation variance beginning January 1, 2005. That deferral was assigned docket number UM 1187.

Numerous data requests have been propounded and responded to by PGE, Staff and other parties in this docket.¹ On February 14, 2005, Staff and other parties filed Rebuttal Testimony in

¹ The Citizens' Utility Board ("CUB") and the Industrial Customers of Northwest Utilities ("ICNU") have also been active participants in this docket. CUB and ICNU have not, however, joined in this Stipulation.

this docket. In that testimony Staff proposed that a temporary mechanism be implemented for calendar years 2005 and 2006, with the anticipation that an ongoing mechanism would be adopted as part of a general rate case and effective beginning in 2007.

PGE, Staff and all intervenors in this docket held settlement conferences in this docket on December 8, 2004, March 3, 2005, and March 14, 2005. As a result of those settlement discussions, PGE and Staff are entering into this Stipulation requesting implementation of a temporary automatic adjustment tariff applicable to calendar years 2005 and 2006.² Specifically, Staff and PGE agree to and request that the Commission adopt orders in this docket implementing the following:

STIPULATION

1. For purposes of this Stipulation, Base Power Costs for each year are defined as the costs included in PGE's final RVM MONET run filed in mid-November of the previous year, as updated for cost of service loads and corresponding costs to reflect customer elections made in November.

2. For purposes of this Stipulation, Updated Power Costs for each year will be determined by taking the Base Power Cost MONET run and updating it for the following factors:

- a) Actual hourly hydro generation;
- b) Actual market electricity prices using daily on-peak and off-peak prices from the Dow Jones Mid-Columbia Daily Electricity Firm Price Index and the hourly price shape from the Dow Jones Mid-Columbia Hourly Electricity Price Index.

² As set forth below, Staff and PGE agree to support and request an order in docket UM 1187, the hydro deferral filed by PGE, implementing the terms of the adjustment mechanism agreed to in this docket beginning January 1, 2005.

- c) Actual market natural gas prices using the Platts GasDat daily index prices for Sumas, AECO, and Malin.

3. The System Dispatch Cost Variance (“SDCV”) is the difference between the Updated Power Costs and Base Power Costs. The SDCV will be deferred into a new account, the SDCV Account, subject to the following provisions:

- a) If the SDCV is negative (i.e., Updated Power Costs are less than Base Power Costs), then deferral of the SDCV will be subject to a deadband of \$7.5 million.
- b) If the SDCV is positive (i.e., Updated Power Costs are higher than Base Power Costs), then deferral of the SDCV will be subject to a deadband of \$15 million.
- c) Eighty percent of SDCV amounts outside these deadbands will be deferred into the SDCV Account.

4. A positive SDCV Account balance may be charged to customers subject to the following provisions. The amount to be charged to customers will be called the SDCV Recovery Amount. An earnings test will be applied to determine the SDCV Recovery Amount:

- a) The SDCV Recovery Amount will be limited to amounts that result in PGE earning no greater than the return on equity (“ROE”) authorized in its last general rate case, 10.5%, on a regulated basis.
- b) All amounts which result in PGE earning an ROE in excess of 10.5% on a regulated basis will not be recovered and may not be carried over to future periods.

5. A negative SDCV Account balance may be refunded to customers subject to the following provisions. The amount to be refunded to customers will be called the SDCV Refund Amount. An earnings test will be applied to determine the SDCV Refund Amount:

- a) The SDCV Refund Amount will be limited to amounts that result in PGE earning no less than the return on equity ("ROE") authorized in its last general rate case, 10.5%, on a regulated basis.
 - b) All amounts which result in PGE earning an ROE less than 10.5% on a regulated basis will not be refunded and may not be carried over to future periods.
6. The earnings test shall be subject to the following provisions:
- a) Actual power cost rather than normalized power costs will be used.
 - b) All other elements of the earnings test will be determined in a manner consistent with the Commission's decisions in PGE's last general rate case, in a form generally provided in PGE's annual Results of Operations Report filed with the OPUC. Adjustments will be limited to Type 1 adjustments only.
7. Amortization of any SDCV Recovery Amount or SDCV Refund Amount will be determined by the Commission for each year. If approved by the Commission, amortization of the SDCV Recovery Amount may begin, subject to refund, prior to the Commission's final determination of SDCV Recovery Amount.
8. The deferral and amortization of power cost variances described in this Stipulation constitutes an automatic adjustment clause under the terms of ORS 757.210.
9. Interest will accrue on any SDCV Account balance at the interest rate authorized by the Commission for deferred accounts, which is currently PGE's authorized overall cost of capital. In addition, catch-up interest will apply to the SDCV Account balance by multiplying the balance by one-half and then multiplying by PGE's authorized interest rate.
10. Staff and PGE request implementation of a tariff consistent with the terms of this Stipulation beginning on the first day of the month following Commission approval. Staff and

PGE also agree to request and support deferral, beginning January 1, 2005, and amortization of power cost variances consistent with this Stipulation in Docket No. UM 1187. For the purpose of calculating the variance deferred between January 1, 2005, and the effective date of a tariff consistent with the terms of this Stipulation, the same method described above for calculating the SDCV Account balance and the SDCV Recovery Amount and SDCV Refund Amount shall apply.

11. The characteristics and terms of an ongoing power cost adjustment mechanism for calendar year 2007 and thereafter will be addressed in PGE's next general rate case. This Stipulation will not be used in whole or part as precedent in that proceeding. This Stipulation provides for a temporary mechanism only.

12. PGE agrees to obtain appropriate consultation services for the purpose of evaluating the statistical distribution of net power costs, at a cost of up to \$100,000. The analysis will consider the volatility of hydro generation, electricity prices, natural gas prices, system load, forced outages, and any correlations between these variables. Staff and PGE will work together to formulate a work statement to guide the work of the consultant. PGE will schedule quarterly public workshops to provide progress reports and receive input from interested parties. Staff and PGE reserve the ability to accept or reject the opinion or work product of the consultant for use in ratemaking, including in PGE's next general rate case. The consultant will report results by December 31, 2005, unless Staff and PGE agree to a different date. PGE will not seek recovery of the cost of these consultation services from customers.

13. Staff and PGE agree that this Stipulation is in the public interest and will produce rates that are fair, just and reasonable.

14. Staff and PGE shall file this Stipulation with the Commission. Staff and PGE agree to support this Stipulation before the Commission and before any court in which this Stipulation may be considered. If the Commission rejects all or any material part of this Stipulation or the Stipulation in UM-1187, or adds any material condition to any final order which is not contemplated by this Stipulation, each party reserves the right to withdraw from this Stipulation upon written notice to the Commission and the other party within five (5) business days of service of the final order rejecting this Stipulation or the UM-1187 Stipulation, or adding such material condition.

15. This Stipulation may be signed in any number of counterparts, each of which will be an original for all purposes, but all of which taken together will constitute one and the same agreement.

16. The parties to any dispute concerning this Stipulation agree to confer and make a good-faith effort to resolve such dispute prior to bringing an action or complaint to the Commission or any court with respect to such dispute.

17. Staff and PGE agree that this Stipulation represents a compromise in their positions. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding. Staff and PGE agree that a Commission order adopting this stipulation will not be cited as precedent in other proceedings for the matters resolved in this stipulation.

18. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR § 860-14-0085. Staff and PGE agree to cooperate in drafting and submitting the explanatory brief or written testimony required by OAR § 860-14-0085(4).


19. By entering into this Stipulation, no party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other party in arriving at the terms of this Stipulation. Except as provided in this Stipulation, no party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

20. Appendix A to this Stipulation is a Term Sheet which provides further description of the terms of the Stipulation.

DATED THIS ¹⁵ // day of April, 2005.

PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON



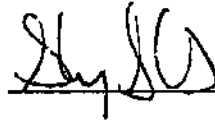
19. By entering into this Stipulation, no party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other party in arriving at the terms of this Stipulation. Except as provided in this Stipulation, no party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

20. Appendix A to this Stipulation is a Term Sheet which provides further description of the terms of the Stipulation.

DATED THIS ___ day of April, 2005.

PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

 _____

UE-165/UM-1187 Settlement Term Sheet

- o Base Power Costs are defined as the costs included in PGE's final RVM Monet run filed in mid-November, with updated cost of service loads to reflect customer elections in November.
- o Updated Power Costs start with the Base Power Cost Monet run and update for the following factors:
 - 1. Actual hourly hydro generation.
 - 2. Actual electric prices using Dow Jones Mid Columbia Hourly Index prices to shape Dow Jones Mid Columbia Daily Index on and off-peak prices to hourly prices.
 - 3. Actual gas prices using daily index prices. Monet must be modified to accept daily gas prices.
 - 4. The procedure for updating Monet is more fully described in Attachment 1.
- o The total variance is defined as the difference between the Updated Power Costs and Base Power Costs. The following sharing applies:
 - 1. A dead band of \$15 million for higher power costs, \$7.5 million for lower power costs
 - 2. All variances beyond \$15 million (higher power costs) or \$7.5 million (lower power costs) are shared 80 / 20 (Customers/PGE).
- o An earnings test will be applied to determine a reasonable level of amortization. The following parameters apply to the earnings test:
 - 1. Recovery of any deferred amounts will be limited to those that result in PGE earning no greater than a 10.5% ROE on a regulated basis. All deferral amounts which result in PGE earning an ROE that exceeds 10.5% on a regulated basis will be written off.
 - 2. Refund of any deferred amounts will be limited to those that result in PGE earning no less than a 10.5% ROE on a regulated basis. All deferral amounts which result in PGE earning an ROE that is less than 10.5% on a regulated basis will be written off.
 - 3. For the purposes of the earnings test, actual power costs will be used rather than normalized power costs.
 - 4. All other elements of the earnings test will leverage from Commission decisions in PGE's last general rate case (UE-115) and which are generally provided in PGE's annual Results of Operations Report filed with the OPUC. Adjustments will be limited to Type 1 adjustments only.
 - 5.
- o Amortization of any deferred amounts, after application of the earnings test, will be decided later by the Commission. There will be two separate amortization dockets (one for any 2005 deferral, another for any 2006 deferral). At PGE's request, the parties agree to consider amortization of deferred amounts (subject to refund) prior to the Commission's final determination of deferral amounts.
- o Parties agree to support this stipulation in the UE-165 docket for purposes of implementation beginning the calendar month after Commission approval of the stipulation. In addition, parties agree to support this stipulation in the UM-1187 docket for purposes of implementation beginning 1/1/2005.

- o The characteristics of an on-going PCA for 2007 and beyond will be addressed in PGE's next general rate case. This agreement will not be used as a precedent in that proceeding.
- o PGE agrees to provide \$100,000 (not recoverable from customers) for the purpose of evaluating the statistical distribution of net power costs. The analysis will consider the volatility of hydro generation, electricity prices, natural gas prices, system load, forced outages, and any correlations between these variables. The parties to the stipulation will work together to formulate a work statement to guide the work of the consultant. PGE will schedule quarterly public workshops to provide progress reports and receive input from interested parties. All parties are free to accept or reject the opinion or work products of the consultant for use in rate making, including PGE's next general rate case. Unless otherwise agreed to by the parties, the consultant will report results by 12/31/2005.
- o Interest will accrue on any deferred amounts at the interest rate authorized by the Commission for deferred accounts, which is currently PGE's authorized overall cost of capital. In addition, catch-up interest will apply to the deferred amount by taking the deferral amount, multiplying by ½ (i.e., assuming the deferred amount accrues equally through the year) and multiplying by PGE's authorized interest rate.

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Attachment 1 of Term Sheet Monet Update Methodology

Updated Power Costs begin with the "Base Power Cost Monet run" and updates for actual hydro generation, electric prices and gas prices. The following outlines the specific procedures.

Actual Hydro Generation

Procedure

Take actual hydro hourly generation for each PGE hydro plant (PGE 66.67% shares of Pelton and Round Butte), Portland Hydro Project, and total Mid-C generation according to our Power Scheduling and Accounting System (PSAS). Because of the Mid-C hourly dispatch logic implemented in the 2005 RVM and continuing in the 2006 RVM, it will be necessary to override this logic to input the hourly Mid-C generation to Monet. One way to do this without modifying the Monet Visual Basic source code is to create a new PGE resource called "Mid-C Actual Generation", which would appear as a new line item in the Hydro Resource section of the Monet Energy report. Then, for each PGE hydro plant, the Portland Hydro Project and the Mid-C as a total, hourly generation will be placed into the hourly factor cells of the WSCCHydroConditionl Sheet. The monthly factors will be adjusted to cancel with the product of the plant capacity and the annual factor. Then, there are three consequential contract effects of updating the hydro energy in Monet and the treatment of Daylight Savings Time.

1. Wells Settlement Agreement: This is a hydro-related contract whose energy and price is modeled as a function of the Wells plant generation. The modeling assumes that if there is more generation from Wells, PGE will receive more energy under the Wells Settlement Agreement. Further, the modeling bases the Wells Settlement Agreement pricing on the Wells plant energy. To capture both of these consequential effects of updating the hydro energy, we would need to obtain and model the monthly Wells plant generation on the PC_Input sheet and modify the Wells Settlement Agreement formulas on the PC_Input sheet accordingly.
2. Tribes Mid-C Index Purchase: This is an index-priced purchase from the Confederated Tribes of Warm Springs based on their share of Round Butte, Pelton and Regulating Project's generation after accounting for any fixed-priced sales of energy to PGE. Even though this is an index-priced purchase, it is indexed at the Mid-C, while in Monet the energy is incrementally valued at the PGE price, which is greater than the Mid-C price by 1.9% transmission losses, or roughly 1 \$/MWh at a market price of 50 \$/MWh. To capture this consequential effect of updating the hydro energy, we would update the monthly Round Butte and Pelton (and possibly the Regulating Project) plant generation on the PC_Input sheet, which would then flow through the modeling of the Tribes Mid-C Index Purchase.
3. Priest Rapids Renewal Contract Reasonable Portion Auction Payment: This is one component of the series of contracts that constitute the Priest Rapids Renewal. As modeled in the 2005 RVM, updating either the Priest Rapids hydro energy or the market electric price affects the Reasonable Portion Auction Payment.
4. Daylight Savings Time: Monet does not model Daylight Savings Time. We will adjust market electric prices and hydro generation as necessary to develop Updated Power Costs.

Actual Gas Prices

Procedure

Take daily index prices for Sumas, AECO and Malin from the Platts Database “GasDat” per Table 1. Enhance Monet to accept daily gas prices and input these to Monet. The other uses of the monthly gas prices in Monet excluding the fueling of Beaver and Coyote Springs, such as the gas transportation variable loss costs and Glendale Sales contract prices, would continue to use the monthly modeling on the PC_Input sheet. The monthly gas prices on the PC_Input Sheet would be calculated as the average of the daily index gas prices for that month. The gas financials (e.g. swaps) would be updated to the actual, settled values of the RVM swaps, which are settled based on monthly (not daily) gas index prices and the spot Canadian/US foreign currency exchange (F/X) rate at settlement. The RVM gas physical transactions, if any, would have their weighted average costs of gas (WACOGs) updated based on the actual, settled values of those transactions, which are again based on monthly index prices and the spot F/X rate at settlement. We will update the value of any RVM Canadian Dollar hedges to reflect the actual settled value of such hedges.

Table 1
Gas Price Index

Monet	Platts GasDat
Sumas	Gas Daily "Sumas", \$US
AECO	Gas Daily “Nova(Aeco-C,NIT)”, \$US
Malin	Gas Daily "Malin", \$US

Actual Electric Prices

Procedure

Take daily on/off-peak and hourly index prices for the Mid-C from Dow Jones. Apply the hourly index shape to the daily on/off-peak index to obtain an hourly electric price whose price level is based on the daily index but whose hourly shape is based on the hourly index. This is done to preserve the hourly volatility present in the hourly index prices while maintaining the simultaneous day-ahead views of the electric and gas market prices. Any gaps in the hourly data would be filled in based on shapes from similar periods where data are available. At some point in the process before inputting the prices to Monet, multiply the Mid-C prices by the factor 1.019 to convert them to PGE prices, consistent with the RVM model.

Dispatchable Contracts

Procedure

PGE will also appropriately model any dispatchable contracts based on the terms (e.g., capacity, heat rate, natural gas price index, exercise fee, etc.) and constraints (e.g., minimum take in hours, maximum take for delivery period, etc.) of the contracts, using the actual gas and electric prices used in the Updated Monet run. Current dispatchable contracts include:

- Superpeak Capacity Agreement
- ColdSnap Capacity Agreement
- On-Peak Tolling Agreement

CERTIFICATE OF SERVICE

I certify that I have caused to be served the foregoing **Stipulation Between Portland General Electric Company and Oregon Public Utility Commission Staff in Docket UE 165** by mailing a copy by First Class U.S. Mail, postage prepaid and properly addressed, and by electronic mail, to the following persons on the official service list maintained by the Commission:

JASON EISDORFER
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PORTLAND OR 97205

Dated this 1st day of April, 2005.



DOUGLAS C. TINGEY