ORDER NO. 00-391

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 112

In the Matter of Portland General Electric Company's Advice No. 00-6, Third Amendment to the 1986 Power Purchase and Option Agreement between Boise Cascade Corporation's St. Helens, Oregon, Pulp and Paper Mill, and Portland General Electric Company.	)	ORDER

DISPOSITION: ADVICE NO. 00-6 ALLOWED TO TAKE EFFECT FOR METER READINGS ON OR AFTER JULY 21, 2000, WITH CONDITION

On July 10, 2000, Portland General Electric Company (PGE) filed Advice No. 00-6, consisting of a Third Amendment to the 1986 Power Purchase and Option Agreement between Boise Cascade Corporation's (Boise Cascade) St. Helens, Oregon, pulp and paper mill (which has approximately a 40 MW load) and PGE. The filing proposes to replace the market based pricing structure established in the current Agreement with PGE's Schedule 89 (Industrial Service, Transmission Voltage). PGE also asked for a waiver of OAR 860-022-0032, to allow this order to become effective with meter readings on or after July 21, 2000. Finally, PGE requested waiver of statutory notice to allow this Advice to be reviewed at the July 20 regular biweekly public meeting.

The current Agreement's pricing structure is based on the Mid-Columbia Electricity Firm Price Index (Mid-C). The term is through December 31, 2003, with a provision that if, after the fifth year (i.e., December 31, 2001), Boise Cascade receives a bona fide competitive offer from a third party service provider, PGE will have the option to meet that offer or Boise Cascade will have the right to terminate the Agreement.

With the First and Second Amendments to the 1986 Agreement, Boise Cascade has been receiving market based prices since January 1, 1997. PGE states that the proposed Third Amendment is driven by Boise Cascade's concern that the current pricing formulation is likely to yield electricity prices that threaten the mill's financial viability.

In return for receiving Schedule 89 charges, Boise Cascade has agreed to pay to PGE $4.0 million. Monthly payments of $266,667 will occur over a 15 month period from July 2000 through September 2001. PGE states that these payments represent the value of benefits Boise Cascade received under the market based pricing that has been in effect since January 1, 1997 (assuming that the benefit equals the Schedule 89 rate less the market price paid). Until recently, market prices have been lower than PGE's Schedule 89 energy rate, which is 3.584 cents per kWh for on peak and 3.107 cents per kWh for off peak energy.

PGE states that it supports this proposal because it "provides recognition of the current agreement's market based pricing and refunds prior benefits." PGE indicates that it believes that taken as a package this filing is responsive to Boise and does not harm other ratepayers.

PGE notes that as many as 30 other customers have switched from market based pricing under Schedules 67 and 87 back to standard rates and argues that it is inequitable not to allow Boise Cascade to do the same. But Schedules 67 and 87 contain explicit provisions allowing a return to standard rates; Boise Cascade's contract does not. In addition, PGE points out that Staff indicated that standard rates are available to new customers or customers that previously had alternative supplies. However, Staff took that position in a matter involving treatment of customers[1] at the end of a special contract term and does not believe that it applies to the current Boise Cascade situation.

PGE maintains that other customers will receive a "net benefit" of $6.8 million. This calculation involves three items:

1. PGE indicates that it is in the process of reviewing its power market costs and may propose recovery of excess power costs. Assuming the recovery period is January 2001 through September 2001 (the recovery period), PGE proposes to use Boise Cascade's monthly payment of $266,667 to offset excess power costs. PGE claims that this is a ratepayer benefit of $2.4 million.

2. PGE states that Boise Cascade will pay the same additional excess power cost recovery charge as all other Schedule 89 customers. PGE assumes that a 10 percent upward adjustment of the Schedule 89 rate of 3.8 cents per kWh is paid. PGE calculates that Boise Cascade will pay an additional $1.04 million during the recovery period, which is claimed as a ratepayer benefit.

[1] Pacific's Pulp and Paper Schedule 43 customers (*see* Pacific Advice No. 94-109).

3. PGE states that other customers will continue to receive the benefit of Boise Cascade's contribution to fixed costs. According to PGE, this is a $43.4 million ratepayer benefit.

PGE states that the $6.8 million "net benefit" effectively eliminates any adverse impact from revenue losses during the recovery period. By revenue loss, PGE means the difference between what it expects Boise Cascade would pay under the current market pricing Agreement versus Schedule 89 rates. For the recovery period, PGE estimates potential revenue losses of between $6.0 million and $9.8 million.

Staff Review. Staff believes that contrary to PGE's claims, the contract amendment will harm other customers. Staff is not persuaded that PGE's calculation of net benefits is proper. Specifically, Staff finds it questionable to include Boise Cascade's contribution to fixed costs as a net benefit. Under the more typical special contract review, where the customer is receiving a rate discount because of a viable alternative to utility service, a contribution to fixed costs is counted as a benefit under the assumption that the load would go away if the rate discount were not offered. It is uncertain whether Boise Cascade would cease operation for the entire period of January 2001 to September 2001. And if Boise Cascade were to shut down for that period, then Boise Cascade would not be making the $1.04 million Schedule 89 adjustment payment, which PGE also claims as a benefit. PGE's logic in including both the $3.4 million contribution to fixed costs and the $1.04 million Schedule 89 adjustment appears faulty to Staff.

For discussion purposes only, Staff assumed that customer benefits include Items 1 and 2 from PGE's application ($2.4 million + $1.04 million = $3.4 million). PGE indicates that its potential revenue losses are between $6.0 and $9.8 million. Staff notes that these estimated revenue losses may also be interpreted as the excess power costs PGE may incur to serve the Boise Cascade load under Schedule 89. Under these assumptions, and assuming that PGE is allowed recovery of excess power costs, returning Boise Cascade to Schedule 89 could disadvantage PGE's other customers by between $2.6 million and $6.4 million (i.e., $6.0 - $3.4 = $2.6 and $9.8 - $3.4 = $6.4).

Staff Recommendation. ORS 757.230 and Order No. 87-402 set out the applicable standards for Commission review of special contracts. Generally, these standards require that: (1) other ratepayers must benefit; (2) any rate discount should be no larger than necessary; and (3) the offer of a discount must not be unduly discriminatory. While this filing presents a unique situation, Staff believes that any special contract should benefit, or at least not disadvantage, other ratepayers. In addition, other similarly situated customers should be eligible for the same consideration.[2]

[2] Staff is aware of one other special contract customer that will begin receiving market prices based on the COB index on September 12, 2000.

Staff presented the results of its review and its recommendation at the July 20, 2000, public meeting. Based on its review, Staff believes that the proposed filing could disadvantage PGE's other customers. Given PGE's request for expedited treatment, Staff did not have time to further pursue its review. When there is good and sufficient cause to further investigate the propriety and reasonableness of a proposed filing pursuant to ORS 757.10 and ORS 757.215, the Commission may order that the filing be suspended. Staff believes suspension is a viable option in this situation.

In the alternative, however, Staff recommended that the proposed Third Amendment to the Power Purchase and Option Agreement between Boise Cascade and PGE (Advice No. 00-6) be allowed to go into effect for meter readings on or after July 21, 2000. Staff further recommended that the Commission adopt this alternative only on the condition that PGE, in any future power cost adjustment or rate case filing, will be at risk for excess power costs required to serve the Boise Cascade St. Helens, Oregon, pulp and paper mill.

Finally, Staff noted that on July 12, 2000, Boise Cascade filed a letter supporting PGE Advice No. 00-6. Staff pointed out that recently the market for power has been volatile and prices have been higher than contemplated in 1997. However, for large customers who sign special contracts, Staff has always taken the position that a large industrial customer is capable of making its own risk assessment with regard to which path is best. In Staff's view, the customer in this instance has voluntarily entered into the special contract and has thereby accepted the contract's terms and conditions, including market price volatility.

Commission Decision. At its July 20, 2000, public meeting, the Commission voted to allow the Third Amendment to the Power Purchase and Option Agreement between Boise Cascade and PGE (Advice No. 00-6) to go into effect for meter readings on or after July 21, 2000. The Commission's decision was based on the condition that PGE, in any future power cost adjustment or rate case filing, will be at risk for excess power costs required to serve Boise Cascade Corporation's St. Helens, Oregon, pulp and paper mill.

ORDER

IT IS ORDERED that:

1. PGE Advice No. 00-6 be allowed to go into effect for meter readings on or after July 21, 2000, on the condition that PGE, in any future power cost adjustment or rate case filing, will be at risk for excess power costs required to serve Boise Cascade's St. Helens, Oregon, pulp and paper mill.

2. OAR 860-022-0032, which provides for rate changes to be effective with service rendered, is waived.

3. The statutory notice requirement is waived.

Made, entered, and effective ________________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A party may appeal this order to a court pursuant to applicable law.