

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 989

In the Matter of the Application of)	
PORTLAND GENERAL ELECTRIC COMPANY)	
For an Accounting Order and Order)	ORDER
Approving Tariff Sheets Implementing a)	
Rate Reduction.)	

DISPOSITION: APPLICATION GRANTED

This Order approves Portland General Electric Company's (PGE) Application for an Accounting Order and for Approval of Related Tariff Sheets filed August 31, 2000. The Application requests Commission approval of certain provisions of two settlement agreements relating to PGE's recovery of its investment in the Trojan Nuclear Plant (Trojan) and the rate reductions resulting from the settlement agreements. The settlement agreements are between PGE and the Citizens' Utility Board (CUB) and between PGE and the Staff of the Commission (Staff), both dated August 22, 2000 (Settlement Agreements).

BACKGROUND

PGE announced in January 1993 the permanent shutdown of Trojan. This was the result of a planning analysis which indicated that continued operation of the Plant would not be a least cost option for PGE customers. In February 1993, PGE sought from the Commission a declaratory order that PGE could recover a return of and a return on its undepreciated investment in Trojan provided PGE could demonstrate that Trojan's retirement was PGE's least cost option. In response to PGE's application, the Commission issued a declaratory order, DR 10, finding that the Commission had authority under Oregon statutes to allow PGE to recover a return of and a return on its undepreciated investment in Trojan. Order No. 93-1117. The Commission denied reconsideration of this order in December 1993. Order No. 93-1763. CUB and the Utility Reform Project (URP) and the Public Power Council (PPC) appealed the Commission's decisions in Order Nos. 93-1117 and 93-1763 to the Marion County Circuit Court. The Marion County Circuit Court issued a judgment affirming the Commission's orders from which CUB, URP and PPC appealed to the Oregon Court of Appeals.

In November 1993, PGE filed for a general rate increase which was docketed as Commission Docket No. UE 88. During this rate proceeding, the allocation of Trojan costs between shareholders and ratepayers was subject to intense public scrutiny. In March 1995, after more than a year of investigation involving the exchange of thousands of documents, intensive

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written testimony and a week of oral hearings, the Commission issued Order No. 95-322 in Docket UE 88. In that order, the Commission adhered to its earlier conclusion in DR 10, that it was authorized to allow PGE to recover the return on and the return of its undepreciated investment in Trojan. However, the Commission rejected PGE's request for full recovery and disallowed \$37.5 million of PGE's net undepreciated investment as of January 1, 1995. Order No. 95-322 also approved a balancing account and an amortization method for recovery of the Trojan balance through a Trojan Investment Recovery Account (TIRA) which has been used by PGE since the date of that order.

Both CUB and URP appealed Order No. 95-322 to the Marion County Circuit Court. In judgments issued in April and May 1996, the Marion County Circuit Court affirmed the Commission's order allowing PGE a return of its investment in Trojan, but ruled that the Commission lacked authority to allow PGE to earn a return on its investment in Trojan during the recovery period. The Commission and PGE appealed these 1996 Marion County Circuit Court judgments and URP cross-appealed the judgments to the Court of Appeals where they were consolidated with the earlier rulings on DR 10.

In a decision rendered in June 1998, the Court of Appeals affirmed the portion of the Commission orders allowing PGE to recover a return of its investment, but ruled that the Commission lacked authority to allow PGE to earn a return on its investment in Trojan during the recovery period. The Commission, PGE and URP petitioned the Oregon Supreme Court for review of the Court of Appeals decision. The Oregon Supreme Court granted the petitions for review of the Court of Appeals decision in April 1999.

To resolve the issues on appeal, PGE has entered into the Settlement Agreements with Staff and with CUB, certain elements of which are the subject of this application.

DISCUSSION

PGE's application requests both an accounting order from the Commission and approval of tariff sheets allowing a rate reduction to all customers to implement the August 22, 2000 Settlement Agreements. PGE requests the accounting changes be effective September 30, 2000, and the tariff sheets contained in Advice No. 00-13, go into effect for electric service on and after October 1, 2000.

The Settlement Agreements provide for the following:

- (1) Removes Trojan investment from the Company's balance sheet and future rates, including a write-off of approximately \$5.9 million (grossed up to approximately \$9.8 million on a revenue requirement basis);
- (2) Offsets a portion of the Trojan investment by removing several other regulatory assets and liabilities as described in the Settlement Agreements (see Attachment 2 to the application);

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- (3) Implements an associated rate reduction of \$10.2 million over the twelve (12) months beginning October 1, 2000;
- (4) Establishes a regulatory asset of approximately \$56 million relating to existing Financial Accounting Standards Board Statement 109 (FAS 109) tax benefits previously advanced to customers but now owed to PGE;
- (5) Establishes a regulatory liability equal to \$2.5 million, which will earn interest until the credit has been fully provided to customers; and
- (6) Shares future distributions from the Nuclear Electrical Insurance Limited (NEIL) between customers (55%) and shareholders (45%), which provides the Company significant incentive to seek the highest possible level of NEIL distributions.

The application further requests the Commission to affirm that nothing in the Commission's order in response to this application is intended to affect PGE's recovery of the cost of decommissioning Trojan, approved by the Commission in Order No. 95-322, and affirm that nothing in the Commission's order and response to the application is intended to require PGE to refund any of the amounts it has collected through rates related to its investment in Trojan prior to and as of the date new rates are established pursuant to order and response to PGE's application.

The application requests approval of the rate reduction provisions of the settlement agreements through Advice No. 00-13. To reflect the effect of removing the balance sheet items and to implement the settlement rate provisions, Advice No. 00-13 modifies one schedule and creates two new schedules. Schedule 110 is modified to remove Part I of the Enron credit that was designed to refund to customers \$105 million of benefits over eight years. Part II of the Schedule 110 adjustment, reflecting estimated Enron merger-related cost savings of \$9 million per year over four years, remains in place. Schedule 112, Asset Adjustment, implements the refund resulting from the removal of the other regulatory assets and liabilities as a result of the settlement. Schedule 114 is designed to allow PGE recovery of the FAS 109 taxes customers owe. The net effect of the three adjustment schedules in Advice No. 00-13 is a decrease in overall revenues of \$10.2 million, or an average of one percent (1%).

The Commission set PGE's application for consideration at its public meeting on September 28, 2000. At that meeting, the Commission received the Staff Report on the application and heard from representatives of Staff, PGE and CUB in support of the application. The Commission also heard comments from Dan Meek, representing the Utility Reform Project.

In consideration of PGE's application, the Staff Report and the comments received at the September 28, 2000 public hearing, the Commission concludes that the application provides a number of benefits to PGE's customers. The transaction results in net

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present value benefits to customers of approximately \$17 million, using PGE's authorized rate of return as a discount rate. This value results from the PGE's write-off of a residual balance, (1) above, PGE agreeing to forego a return on the FAS 109 regulatory asset, (4) above, and the \$2.5 million additional credit for customers, (5) above. The transaction also simplifies PGE's balance sheet by removing \$188 million in regulatory assets and liabilities for which the Commission, in most cases, has already authorized recovery or refund in prior rate cases.

PROCEDURAL ISSUES

PGE's application combines a request for an accounting order and approval of tariff sheets. Under our regulatory statutes, the Commission may approve accounting orders, as presented here, without the need for formal hearings. However, whenever a utility files with the Commission a schedule of rates under ORS 757.210, the Commission must conduct a hearing upon written complaint filed by the utility, its customer or customers, or any other proper party within sixty (60) days of the utility filing. PGE's Advice No. 00-13, filed with its application on August 31, 2000, is such a filing. Accordingly, should any person permitted under ORS 757.210 file a written complaint, the Commission must hold hearings on PGE's advice filing. Such a hearing is required, whether or not we allow the tariff sheets in Advice No. 00-13 to go into effect on the requested date, October 1, 2000.

FINDINGS OF FACT

1. PGE filed its application for accounting order and approval of tariff sheets implementing rate reduction on August 31, 2000.
2. The Commission considered the application in its public meeting on September 28, 2000. The Commission heard statements in support of the application from PGE, Staff and CUB.
3. The Commission finds, based on the application, the Staff Report and the comments received at the public hearing, that approval of the application is in the public interest, will result in fair and reasonable rates and should be approved by the Commission and that the tariff sheets in Advice No. 00-13 should not be suspended and should be allowed to go into effect for service on and after October 1, 2000 as proposed.

CONCLUSIONS OF LAW

1. PGE is a public utility subject to the jurisdiction of the Public Utility Commission of Oregon.
2. Approval of PGE's application will provide benefits to PGE's customers, is in the public interest, and will result in fair and reasonable rates.
3. The application should be approved.

ORDER

IT IS ORDERED that:

1. The following PGE accounting actions effective September 30, 2000, are approved:
 - (a) Eliminate the remaining Trojan investment balances by offsetting them with various liabilities as shown in Attachment 2 to the application, using actual balances as of September 30, 2000.
 - (b) Write off the residual balance of approximately \$5.9 million to FERC Account 426.5, a below the line account.
 - (c) Terminate the Trojan Investment Recovery Account (TIRA), the mechanism established in Order No. 95-322.
 - (d) Establish in FERC Account 182.3 a regulatory asset of approximately \$56 million related to existing FAS 109 tax benefits customers owe to PGE, to be amortized at \$9.3 million per year, with no return on the unamortized balance.
 - (e) Establish in FERC Account 254 a regulatory liability equal to \$2.5 million, which will be credited to customers in the future, including a return on the unamortized balance at PGE's authorized rate of return.
 - (f) Establish in FERC Account 254 a regulatory liability to record the customer portion (55%) of any future NEIL distributions PGE receives, which will be credited to customers, including a return on the unamortized balance at PGE's authorized rate of return.

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(g) PGE will record the shareholder portion (45%) of any future NEIL distributions in a below the line account.

2. PGE will provide the Commission with the final accounting journal entries from the action approved above by November 30, 2000.

3. The tariff sheets in Advice No. 00-13 are not suspended and are allowed to go into effect for service on or after October 1, 2000.

4. To the extent necessary to be consistent with this order, Order No. 95-322 is amended.

5. Nothing in this order is intended to affect PGE's recovery of the cost of decommissioning Trojan as approved in Order No. 95-322.

6. Nothing in this order is intended to require PGE to refund any of the funds it has collected through rates related to its investment in Trojan prior to and as of October 1, 2000.

Made, entered, and effective _____.

Ron Eachus
Chairman

Roger Hamilton
Commissioner

Joan H. Smith
Commissioner

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 of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070. A party may appeal this order to a court pursuant to ORS 756.580.