ORDER NO. 01-473

ENTERED: JUN 13 2001

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1014

In the Matter of the Application of PORTLAND GENERAL ELECTRIC COMPANY in Regard to Use of Rate Base Property at the Beaver Generation Plant.	))))	ORDER

DISPOSITION: STIPULATION ADOPTED; APPLICATION APPROVED

On March 7, 2001, Portland General Electric Company (PGE) filed a request for approval to site a 24.7 MW combustion turbine at its Beaver Generation Plant. Given the current lack of supply in the western United States, PGE believes that the turbine will benefit not only the Northwest energy market, but PGE customers and shareholders as well. PGE expects to have the unit on line by August 1, 2001.

In response to the filing, PGE, the Commission Staff (Staff), the Citizens' Utility Board (CUB), and the Industrial Customers of Northwest Utilities (ICNU) met on several occasions to determine how the revenues and costs associated with the new turbine should be treated for regulatory purposes. Those meetings resulted in a stipulated agreement, signed by PGE, Staff and CUB. ICNU did not sign the stipulation, but stated that it would not oppose the agreement.

The Commission reviewed PGE's application and the parties' stipulation at its May 22, 2001 Public Meeting. After review, the Commission adopted Staff's recommendation to adopt the stipulation and approve PGE's request. Staff's report, which includes a copy of the party's stipulation, is attached as Appendix A.

Based on the record in this matter, the Commission makes the following:

FINDINGS AND CONCLUSIONS

Under the terms of the stipulation, the parties agree that none of the costs or revenues associated with the 24.7 MW turbine will be included in PGE's retail rates. The parties also agree that PGE's shares of the costs and revenues associated with the turbine will not be recognized for the determination of reasonableness of rates, for earnings deferral, or in any power cost adjustment.

Instead, the parties agree that the variable margins, defined as the difference between the market value of the power generated by the turbine and its variable costs, will be allocated in the following order. The first $13.2 million in variable margins will be used to pay for the turbine and related costs incurred by PGE. The next approximately $1.7 million will be used to pay customers for the use of facilities at the Beaver site. Then, the next $38.5 million will be split evenly between customers and the company. Finally, any additional variable margins will be split 80/20 with the larger share going to customers. Under this agreement, customers assume the risk that variable margins will be less than the projected capital costs.

The stipulated agreement will begin with a three-year term, commencing on August 1, 2001. Customers will have the option to renew for additional three-year terms. Customers can also terminate the agreement at any time by demonstrating that the plant is no longer economic to operate.

The Commission agrees with Staff that, due to the current shortfall in electric generation capacity and high wholesale electricity prices, PGE's placement of this 24.7 MW turbine at the Beaver site should provide considerable value for PGE customers and shareholders. While customers assume some risk that the project would not become economic, this risk is similar to risks customers have typically assumed and, in this case, is offset by the opportunity to share in the financial gains from selling the output of the project. The parties' stipulation should be adopted, and PGE's application approved.

ORDER

IT IS ORDERED that:

1. The Stipulation submitted for the purpose of resolving issues related to Portland General Electric Company's application to place a new combustion turbine on property currently in rate base at the Beaver Generation Plant is adopted; and

2. The application of Portland General Electric Company (PGE) in regard to use of rate base property at the Beaver Generation Plant, is approved.

Made, entered and effective ___________________________________.

Roy Hemmingway Chairman	**Roger Hamilton** Commissioner
	Joan H. Smith Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. 5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
REGULAR PUBLIC MEETING DATE: May 22, 2001

REGULAR AGENDA X CONSENT AGENDA__ EFFECTIVE DATE May 28, 2001

DATE: May 16, 2001

TO: Phil Nyegaard through Marc Hellman, and Bryan Conway

FROM: Stefan Brown

SUBJECT: UM-1014, PGE Request for an Order for Use of Rate Base Property at Beaver Generation Plant

SUMMARY RECOMMENDATION:

I recommend the Commission approve PGE's Request for use of rate base property at Beaver Generation Plant.

DISCUSSION:

On March 17, 2001, PGE filed a request for approval to site a small simple cycle combustion turbine (CT) at its Beaver site, and use rate based assets. PGE has purchased a 24.7 MW CT that can operate for approximately 3,200 hours per year at the Beaver plant under current environmental regulations.

PGE stated that in response to the current lack of supply in the western U.S., PGE would like to site several small CTs at various PGE locations. PGE believes that these turbines will benefit not only the Northwest energy market, but PGE's customers and shareholders.

PGE plans to sell the unit's output into the wholesale market. Using current forward price curve projections for electricity and natural gas, the CT is economically viable through 2003. PGE expects to have the unit on-line by August 1, 2001.

Due to tight shipping and permitting schedules, PGE originally requested a Commission ruling no later than April 3, 2001. However, PGE requested that the matter be delayed until May 22, 2001 to allow PGE time to develop a stipulation that the parties support. Interested parties, including representatives from CUB and ICNU, met several times with PGE and Staff to discuss this issue and to develop a stipulation.

PGE proposed two alternatives that compensate customers for the use of the regulated property and services: compensation at the higher of cost or market for all services and property, or a share in the costs and benefits of the CT. Under PGE's first alternative, customers are expected to receive approximately $583,000 per year while the unit is at Beaver. Under the second alternative, customers are expected to receive approximately 12.6 percent of the value of the CT's output while paying 12.6 percent of the CT's variable costs. Regardless of the alternative chosen, PGE requests approval to exclude the variable costs and revenues related to the CT from the power cost deferral mechanism in UM 1008/1009 to avoid double counting. PGE also proposes establishing a deferral account to track customer compensation.

PGE estimates that total project cost would be approximately $13.2 million. This figure includes the cost of the turbine, the CO catalyst, and balance of plant costs, such as installing a concrete pad for the unit and connecting the unit to gas supply and to transmission facilities. Because the unit produces less than 25 MW, the Energy Facility Siting Council (EFSC) does not require a site certificate. Since filing the application, PGE has determined that adding a CO catalyst would allow the unit to operate up to 5,700 hours in any twelve-month period. PGE expects to add the CO catalyst to the CT around October 1, 2001.

STAFF ANALYSIS

PGE's application included two alternatives for compensating customers for use of rate base assets. The first approach would compensate customers based on the higher of cost of market for all services and property provided by customer. This would result in a fixed payment per year of approximately $583,000 per year that the turbine was at Beaver. Under this approach customers assume no risk associated with the project and receive none of the rewards.

PGE's second alternative would give customers a share of the value of the CT's output and a commensurate share of the costs. That is, customers would be assuming a share of the risks and rewards from the project. As proposed, customers' share in the project would be determined by the share of the project costs that would be provided by customers; principally, a spare transformer that is in rate base, and the electricity and gas transmission facilities.

After reviewing the application, Staff was concerned about PGE's proposed sharing arrangements between customers and PGE. Specifically, customers' share of the proceeds under the proposals seemed too low compared to the potential benefits and risks of the project, and what each party would provide.

As a result, PGE, Staff and interested parties met to discuss a mutually acceptable allocation of project benefits and risks. The meetings resulted in a stipulated agreement (Stipulation) signed by PGE, Staff and CUB. ICNU did not sign the Stipulation, but stated that it would not oppose the agreement. The Stipulation is attached to this memorandum.

The key component presented in the Stipulation is the allocation of benefits and costs from the project between PGE and ratepayers. The parties agree that the first approximately $13.2 million in variable margins will go to pay for the turbine, CO catalyst, site improvements, and fixed costs incurred by PGE. The next approximately $1.7 million will go to pay customers for the use of facilities at the Beaver site. Then, the next $38.5 million will be split evenly between customers and PGE. Finally, any additional variable margins will be split 80/20 with the larger share going to customers. The customers' share of variable margins will be deferred for later ratemaking. Customers assume the risk that variable margins will be less than the project capital costs.

The costs and revenue associated with this project will not be included in rate base. Although capital costs associated with the project are customers' responsibility, these costs will not appear on PGE's regulated books. In addition, PGE's share of revenues and costs associated with the project will not be recognized for determination of reasonableness of rates, for earnings tests on deferrals, or in any power cost adjustment.

Variable margins are defined as the difference between the market value of the power generated and the variable costs. For purposes of computing the variable margins, plant output will be valued daily according to the daily Dow Jones Mid-Columbia Firm on-peak index for on-peak production, and at the daily Dow Jones Mid-Columbia Firm off-peak index for off-peak production. Fuel costs will be calculated monthly as the actual cost of gas burned by the unit during the month. A separate "book" will be used to determine actual unit gas costs. Revenue from the sale of any excess gas would offset fuel costs for the unit.

Another change incorporated into the Stipulation is that customers will have the option to renew the agreement for additional three-year terms. For each additional term, if customers want to continue the agreement they must cover any capital additions and fixed costs incurred by PGE. During each succeeding three-year period variable margins will be allocated in the same manner as listed above.

The last significant change from PGE's application is the termination clause. Customers can terminate the agreement at any time by demonstrating to the Commission that the plant is no longer economic to operate. However, termination will not change PGE's ability to recover its capital and other fixed costs associated with this project. Upon termination, PGE will try to sell the CT at the highest price or dispose of the CT at the least cost possible. Any proceeds from the sale will be split 80/20 with the larger share going to customers. Any sale requires Commission approval, and PGE will not purchase the CT except through a Commission approved bidding process.

<u>Conclusion</u>
Staff believes that because of the current electricity generation shortfall, high wholesale electricity prices, and the ability to bring this turbine on-line by August 2001, that this project should provide considerable value for PGE and its customers. While customers would assume some of the risk that the project would not be economic, this is similar to risks that customers have typically assumed. In this instance, the risks are offset by the opportunity to share in the financial gains from selling the output, rather that receiving the output of the project. In addition, the output of this project may improve the reliability of the region's electric system.

DETAILED RECOMMENDATION:
I recommend the Commission approve the settlement as presented in the Stipulation and approve PGE's Application for an Order for Use of Rate Base Property at Beaver Generation Plant, Docket No. UM-1014, to go into effect on May 28, 2001.