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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1014

In the Matter of PORTLAND GENERAL)	
ELECTRIC COMPANY's Request for)	SUPPLEMENTAL ORDER
Clarification of Stipulation Regarding Use of Rate)	
Base Property at the Beaver Generation Plant.)	
)	

DISPOSITION: SUPPLEMENTAL STIPULATION APPROVED;
ORDER NO. 01-473 AMENDED

On July 18, 2001, Portland General Electric Company (PGE) filed a request for clarification of stipulation in this case.

The basis for the current request as well as the procedural history of this filing is detailed in the Staff's recommendation memo, attached as Appendix A and incorporated by reference. Based on a review of the request and the Commission's records, the Commission finds that this supplemental stipulation satisfies applicable statutes and administrative rules.

At its public meeting on July 24, 2001, the Commission adopted Staff's recommendation and approved PGE's current request.

ORDER

IT IS ORDERED THAT the supplemental stipulation of Portland General Electric Company is approved. Order No. 01-473 is amended to include and incorporate the supplemental stipulation, subject to conditions as specified in Appendix A. All other provisions of previous Commission Orders issued in this docket, shall, to the extent not modified by this order, remain in full force and effect.

Made, entered and effective _____.

ORDER NO. 01-695
BY THE COMMISSION:

Vikie Bailey-Goggins
Commission Secretary

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.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
REGULAR PUBLIC MEETING DATE: July 24, 2001**

REGULAR AGENDA__ CONSENT AGENDA_X EFFECTIVE DATE July 25, 2001

DATE: July 18, 2001

TO: Phil Nyegaard through Marc Hellman, and Bryan Conway

FROM: Stefan Brown

SUBJECT: UM-1014, PGE Request for an Amendment to Order No. 01-473

SUMMARY RECOMMENDATION:

I recommend the Commission approve and incorporate the new Stipulation as an amendment to Commission Order No. 01-473 relating to 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 24.7 MW simple cycle combustion turbine (CT) at its Beaver site, and use rate based assets. After discussions among several interested parties, a Stipulation was reached and signed by OPUC Staff, PGE, and the Citizens Utility Board of Oregon (CUB). The Industrial Customers of Northwest Utilities (ICNU) did not sign the Stipulation, but stated that it would not oppose the agreement. The Stipulation was presented to the Commission at its May 22, 2001, Public Meeting. On June 13, 2001, the Oregon Public Utility Commission (OPUC) entered Order No. 01-473, which approved a Stipulation regarding the installation of, and sharing of benefits from, a 24.7 MW combustion turbine to be sited at PGE's existing Beaver location.

After the Commission issued its order adopting the Stipulation, PGE discovered that there were a few issues not specifically addressed in the Stipulation that needed clarification. PGE and Staff discussed these issues by phone, and then met on July 16, 2001, to in order to reach agreement on the issues identified on the following page. The Citizens' Utility Board was also contacted and is a signatory to the new Stipulation. {The discussion below is a close description of the agreement between the Citizens' Utility Board, PGE and staff (Parties). Readers should refer to the attached Stipulation for the full text.}

1. Gas Purchased and Electricity Generated Prior to Commercial Operation

The Parties agree that, during this testing phase, the project will use Beaver gas and in exchange, all power generated by the project will go to the retail electric book. PGE also agrees that during the testing phase, the project remains incomplete and under construction, and PGE will not claim that the power produced during testing qualifies the unit as available for commercial operation.

2. Starting Date of Commercial Operation

The original Stipulation assumed the plant would commence commercial operation on August 1, 2001. The CT is now expected to begin commercial operation early, perhaps as much as 7 to 10 days before the end of July. The Parties agree that the intent was to have customers start sharing in the benefits of the project when it goes on line. Therefore, the Parties agree that the variable margins from the project that occur before August 1, 2001 will be placed in a balancing account for the purpose of paying for transmission ancillary services as described more fully in point 4 below.

3. Gas Transportation Management

The Parties agree that the Stipulation authorizes PGE to use its interest in the KB Pipeline to manage the gas transportation needs of the project. The project is not purchasing an interest in the KB Pipeline; it is merely contracting with PGE to manage its transportation needs on the pipeline, the cost of which is included in the estimated \$1.7 million for the use of PGE facilities. This will give PGE the flexibility to use its rights to pack and draft gas on the pipeline to match the project's gas purchases, sales, and consumption over time in the most economic manner, as PGE does for the current Beaver project.

4. Ancillary Services

The Parties agree that the project is authorized to purchase necessary ancillary services from PGE under PGE's FERC open access transmission tariff, and that such purchase will be accounted for in the following manner:

First, the net variable margins from commercial operation prior to August 1, 2001, recorded in the balancing account described in point 2 above, will be drawn upon by the project to pay for transmission ancillary services purchased from PGE until all the funds placed in the account have been used.

Second, once the account is drawn to zero, the cost of the transmission ancillary services purchased from PGE will be recorded as costs of the project. These costs will be added to the cost of the other PGE facilities the project is authorized to use and will be treated in the same manner for accounting purposes as the approximately \$1.7 million discussed in the original Stipulation on page 3 in section 5b. As a result, the variable margins needed to cover the cost of the ancillary services charged to the project (i.e., those not covered by the pre-August 1, 2001 margins), will be deferred and returned to customers in the same manner as will occur for the \$1.7 million for the other uses of PGE facilities.

STAFF ANALYSIS

In initially approaching Staff regarding the CT project, PGE identified two key issues. First is the fact that the CT should be ready for operation earlier than expected. This provides for the opportunity for greater benefits to be shared between consumers and shareholders. The second issue is treatment of ancillary services. The original stipulation did not specifically state that ancillary services were to be included as a cost of operation. However, ancillary services are classified as "transmission services" and hence the point could be argued that ancillary services fall under the category of transmission services. The issue then is how ancillary service costs should be handled. (PGE has represented that the costs of ancillary services should be no more than \$10,000 per month.) In discussions with PGE, the company noted that the price for power, including ancillary services such as spinning reserves, is much higher than unit-contingent sales. Therefore, the Parties agree that it is beneficial to provide ancillary services with the power sold and that the margins achieved prior to August 1 should be dedicated towards payment of the costs for ancillary services.

Staff continues to believe that because of the current electricity generation shortfall and wholesale electricity prices, this project should provide value for both 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 than 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 and incorporate the new Stipulation as an amendment to Commission Order No. 01-473 relating to PGE's Request for use of rate base property at Beaver Generation Plant.