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**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UE 145

In the Matter of	)	
	)	
PORTLAND GENERAL ELECTRIC	)	
COMPANY	)	ORDER
	)	
Application Requesting an Increase in	)	
Schedule 127 Power Cost Adjustment Rate	)	
(Advice No. 02-19).	)	

**DISPOSITION: STIPULATION ADOPTED**

In Order No. 01-777, the Commission adopted a power cost stipulation between Portland General Electric Company, (PGE), the Citizens' Utility Board (CUB), Industrial Customers of Northwest Utilities (ICNU), Fred Meyer, and the Commission Staff (Staff). The stipulation contained Schedule 127, a power cost adjustment (PCA) mechanism for the period October 1, 2001 through December 31, 2002. The PCA was designed to establish how PGE accounted for variations between expected power costs and energy revenues and actual power costs and energy revenues, and describes the method by which the company and its customers will share in the benefits and burdens of such variations. PGE's Schedule 127 provides that:

The Power Cost Adjustment Rate shall be revised on a quarterly basis. It shall be determined as an amount per kilowatt-hour \* \* \* necessary to bring the projected balance of the Power Cost Adjustment Account \* \* \* to zero at the end of 2002.<sup>1</sup>

PGE filed its first two quarterly reports in November 2001, and February 2002, respectively. Both reports showed deviations in power costs and energy revenues that resulted in a collection amount from customers. However, due to the relatively small collection amount and improving market conditions, PGE did not propose to increase the Schedule 127 rates in either report.

In May 2002, PGE filed its third quarterly report. That report showed that actual/forecast power costs were \$16.6 million below base power costs, and actual/forecast energy revenues were \$80.9 million below base energy revenues. This resulted in a power cost

<sup>1</sup> Portland General Electric Tariff No. E-17, Original Sheet No. 127-4.

variance<sup>2</sup> of \$64.4 million and the collection amount was \$27.4 million. In Advice No. 02-11, PGE proposed two alternatives to recover this amount. Under alternative A, PGE would recover the \$27.4 million over the remainder of 2002. Under alternative B, PGE would recover the amount over a four and half year period.

In Order No. 02-399, the Commission suspended Advice No. 02-11 and decided to postpone any decision on the PCA recovery until after PGE filed its next quarterly report in August 2002. The Commission concluded that waiting for three more months of actual results could improve the power cost variance.

On August 15, 2002, PGE filed its final quarterly report. That report estimated the power cost variance was \$83.6 million and the collection amount was \$43.8 million. Given the large collection amount, PGE supported its earlier proposed alternative B as the appropriate method for recovering the expected PCA balance.

In October 2002, PGE updated its forecast for the 15-month power cost variance in Advice No. 02-19. In the update, the variance was \$63.4 million and the collection amount was \$26.6 million. PGE requested that the Commission: (1) address the amortization of the 15-month PCA balance prior to the end of 2002; and (2) adopt the company's alternative B as filed in Advice No. 02-11 and modified in Advice No. 02-19.

On October 3, 2002, ICNU submitted comments on Advice No. 02-11. ICNU argued that the failure to collect the outstanding balance by the end of 2002 violates both the UE 115 Stipulation and the terms of Schedule 127. ICNU opposed any attempt by PGE to collect interest on the PCA balance past December 31, 2002.

On November 4, 2002, Staff, PGE, ICNU, and CUB began discussing alternative amortization scenarios. To facilitate the discussions, PGE extended the requested effective date of Advice No. 02-19 until January 1, 2003.

### **Resource Valuation Mechanism**

In another proceeding, Docket UE 139, the Commission addressed PGE's annual revision of its power supply costs under its Schedule 125. Schedule 125, which was part of the power cost stipulation adopted in Order No. 01-777, establishes an annual resource valuation mechanism (RVM) adjustment, which PGE must file on November 15 of each year and is effective January 1 of the following year. Following an investigation, the Commission disallowed certain costs related to four disputed power purchase contracts based, in part, on an alternative proxy price proposed by Staff.<sup>3</sup> Staff calculated its alternative proxy price as the

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<sup>2</sup> Power Cost Variance equals (Actual/Forecast NVPC – Base NVPC) minus (Actual/Forecast Energy Revenue – Base Energy Revenue). The Quarterly Reports cover actual/forecast net variable power costs and energy revenues for the entire 15-month period ending December 31, 2002.

<sup>3</sup> See Order No. 02-772, p. 14.

average of on-peak prices for the year 2003 from the forward price curves that PGE had used in a July 2001 forecast of its net variable power costs.

After Order No. 02-772 was issued, PGE discovered, and brought to the attention of other parties to Docket UE 139, an error that affected the calculation of Staff's alternative proxy price. PGE explained that, contrary to Staff's belief, its July 2001 forecast used forward prices established in May 2001, not July 2001. Had the Commission calculated the cost disallowance using an alternative proxy price actually calculated from forward prices established in July 2001, the disallowance would have been approximately \$6.3 million higher.

### **Stipulation**

On December 17, 2002, PGE, ICNU, CUB, and Staff signed a Stipulation on the Schedule 127 Power Cost Adjustment Rate (Schedule 127 Stipulation). The Schedule 127 Stipulation resolves all issues related to the calculation and recovery of PGE's 15-month PCA balance, as well as all issues related to the error PGE identified in Docket UE 139.<sup>4</sup> Staff presented the Schedule 127 Stipulation to the Commission for adoption at the December 18, 2002 Special Public Meeting. Staff's report and the Schedule 127 Stipulation are attached as Appendix A and made part of the record of this proceeding pursuant to OAR 860-014-0085.

The stipulating parties agree that the Schedule 127 Stipulation is in the public interest and results in an overall fair, just and reasonable outcome. Key provisions of the Schedule 127 Stipulation include:

- PGE's actual power costs and energy revenues for October 1, 2001 through December 31, 2002 shall be subject to a prudence review and audit. Schedule 127 contains a true-up provision for prudence adjustments made by the Commission.<sup>5</sup>
- The 15-month PCA collection amount shall be reduced by \$4.558 million. This reduction is to be applied after application of the PCA sharing mechanism and the calculation of catch-up interest.
- The collection amount shall be allocated to Schedule 83 customers and non-Schedule 83 customers on a pro rata basis based on actual 15-month loads.

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<sup>4</sup> Notwithstanding the stipulation, PGE disputes the appropriateness of (a) any disallowance of costs related to the four power purchase contracts at issue in Docket UE 139; (2) the calculation of the disallowance in Order No. 02-772; and (3) the calculation of the \$6.3 million RVM error.

<sup>5</sup> As of the date of the execution of the Schedule 127 Stipulation, PGE projects the 15-month PCA collection amount to be \$33 million. The \$6.4 million increase over PGE's projection in its October 7, 2002 Quarterly Report is largely attributable to a forced outage of Colstrip Unit No. 3 that occurred on November 22, 2002. The reason for the outage is still under investigation. The unit is expected to be off-line for the remainder of 2002.

- The Schedule 127 amortization period for customers on Schedule 83 shall be one year.
- The Schedule 127 amortization period for non-Schedule 83 customers shall be two years.
- PGE Schedule 83 or 583 customers with usage greater than 5 MWa during 2002 may elect to pay their share of the balance with a single lump-sum payment.
- Balances in the PCA account shall collect interest at PGE's authorized cost of capital.
- PGE shall file revisions to the Schedule 127 rates as necessary to recover the PCA balance over the appropriate time periods.
- Any remaining (at the end of 2003 for Schedule 83, and at the end of 2004 for all other rate Schedules) balance will be collected from or returned to customers, as appropriate, in a manner determined by the Commission.

In its report, Staff notes that the application of revised Schedule 127 will cause PGE's amortization of deferrals subject to ORS 757.259 to exceed 3 percent of PGE's gross revenues for 2002. The stipulating parties waive whatever rights they may have to object to the application of revised Schedule 127 on that basis and agree to request that the Commission take all actions and make all findings necessary to allow revised Schedule 127 and the charges to customers pursuant to that Schedule to become effective for service from PGE on and after January 1, 2003.

Staff also notes that ORS 757.259(4) contemplates an earnings review at the time of application for amortization, unless that amortization is the subject of an automatic adjustment clause under ORS 757.210(1). Staff explains, however, that the Attorney General has opined that the PCA approved in Order No. 01-777 is an automatic adjustment clause and that, therefore, no earnings review is required prior to adjusting Schedule 127 rates.<sup>6</sup> Staff further notes that the stipulating parties expressly addressed any earnings review in the UE 115 power costs stipulation:

The Parties shall request that the Commission allow PGE to amortize into rates, both before and after December 31, 2002 \* \* \* the Adjustment Amount produced by the application of Schedule 127, notwithstanding the results of any earnings review that the Commission may be required to

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<sup>6</sup> ICNU disagrees with the Attorney General's opinion but has agreed not to challenge it in this proceeding.

conduct under ORS 757.259. In any such earnings review, the Parties shall support full recovery or refund of the Adjustment Amount without any adjustment, except those adjustments specifically allowed in this Stipulation.<sup>7</sup>

Finally, Staff notes that, on December 18, 2002, PGE updated Advice No. 02-19 and withdrew Advice No. 02-11 (UE 143) in its entirety. The company filed First Revisions of Sheet Nos. 126-1, 126-2, and 126-3 to remove the Part B credits that terminate at the end of 2002. The Part A amortization of power costs deferred during the period January 2001 through September 2001 continues as per Order No. 01-231. In addition, PGE filed First Revisions of Sheet Nos. 127-4 and 127-5 to conform to the terms of the Schedule 127 Stipulation. The First Revision of Sheet No. 127-1 remains as filed on October 7, 2002. PGE also filed an Application to Waive Statutory Notice for the changes to be effective January 1, 2003.

### **Commission Resolution**

At the December 19, 2002 Special Public Meeting, the Commission adopted Staff's recommendation. The Commission acknowledges that, under OAR 860-014-0085(5), any party may file an objection to a stipulation within 20 days. While no parties have been officially designated in this docket, we note that all the parties to Docket UE 139 and all but one party that signed the UE 115 power cost stipulation—PGE, ICNU, CUB and Staff—have signed the stipulation. Moreover, the only other party to the UE 115 power cost stipulation, Fred Meyer, was advised about the Schedule 127 stipulation and did not oppose it. In light of these facts, and given the proposed January 1, 2003 effective date, the Commission finds good cause exists to waive the 20-day objection period pursuant to OAR 860-011-0000(6).

PGE has provided a table showing the current collection rate per rate schedule and the proposed collection rate per rate schedule that includes the proposed Schedule 127 collection and the other approved changes. This table is labeled as Attachment B to Staff's report. The table shows January 1, 2003, rate reductions of 1.9 percent for residential consumers, 9.0 percent for Schedule 32 consumers, and 10.7 to 16.9 percent for Schedule 83 consumers.

Finally, the Commission would like to acknowledge PGE's candor in informing the Commission and the parties about the error in docket UE 139. The Commission appreciates PGE's willingness to disclose the mistake related to Staff's calculation of the alternative proxy price, especially since the error favored the company. Such a disclosure helps confirm the integrity of the regulatory process.

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<sup>7</sup> Order No. 01-777, Appendix D, p. 3, Section 4(b).

**ORDER**

IT IS ORDERED that:

1. The Schedule 127 Stipulation is adopted.
2. Portland General Electric Company's Application to Waive Statutory Notice filed on December 18, 2002, is approved.
3. First Revision of Sheet Nos. 126-1, 126-2, and 126-3 filed in Advice No. 02-19 is allowed to go into effect on January 1, 2003, with less than statutory notice.
4. First Revision of Sheet Nos. 127-1, 127-4, and 127-5 filed in Advice No. 02-19 is allowed to go into effect on January 1, 2003, with less than statutory notice.

Made, entered, and effective \_\_\_\_\_.

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**Roy Hemmingway**  
Chairman

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**Lee Beyer**  
Commissioner

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**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 within 60 days of the date of service of this order. The request must comply with the requirements in 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(2). A party may appeal this order to a court pursuant to applicable law.

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
SPECIAL PUBLIC MEETING DATE: December 19, 2002**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** January 1, 2003

**DATE:** December 18, 2002

**TO:** John Savage through Lee Sparling and Jack Breen

**FROM:** Maury Galbraith

**SUBJECT:** PORTLAND GENERAL ELECTRIC: (Advice No. 02-19) Settlement Agreement on PGE's 2002 Power Cost Adjustment Mechanism Balance.

**STAFF RECOMMENDATION:**

I recommend that the Commission adopt the Stipulation on the Schedule 127 Power Cost Adjustment Rate. I also recommend that the Commission allow the Schedule 127 power cost adjustment rates filed in Advice No. 02-19 to go into effect on January 1, 2003.

**DISCUSSION:**

On August 31, 2001, the Commission entered Order No. 01-777 in Docket UE 115, adopting the power cost stipulation (Stipulation) between Portland General Electric (PGE), the Citizens' Utility Board (CUB), Industrial Customers of Northwest Utilities (ICNU), Fred Meyer, and the Commission Staff (Staff). Order No. 01-777 implemented Schedule 127, a Power Cost Adjustment (PCA) mechanism for the period October 1, 2001 through December 31, 2002. The Commission determined that this 15-month PCA "fairly distributes among the customers and PGE the potential benefits and costs resulting from changes in load, resources and the wholesale power market." (Order No. 01-777, p.20).

PGE's Schedule 127 states:

"The Power Cost Adjustment Rate shall be revised on a quarterly basis. It shall be determined as an amount per kilowatt-hour...necessary to bring the projected balance of the Power Cost Adjustment Account...to zero at the end of 2002."  
(Portland General Electric Tariff No. E-17, Original Sheet No. 127-4)

On November 15, 2001, PGE filed its first Quarterly Report. Actual/Forecast power costs were \$7.1 million above base power costs. Actual/Forecast energy revenues were \$35.1 million below base energy revenues. Combining these deviations resulted in a Power Cost Variance of \$42.2 million<sup>1</sup>. Application of the PCA mechanism resulted in a collection amount of \$8.5 million. PGE cited the small collection balance and only one month of actual results as reasons for not proposing to increase the Schedule 127 Power Cost Adjustment Rate.

On February 15, 2002, PGE filed its second Quarterly Report. Actual/Forecast power costs were \$11.7 million below base power costs. Actual/Forecast energy revenues were \$64.4 million below base energy revenues. The Power Cost Variance was \$52.7 million and the collection amount was \$17.5 million. PGE cited stability in retail rates, the possibility of an improved Power Cost Variance, and the possibility of offsets in 2003 as reasons for not proposing to increase the Schedule 127 rate.

On May 16, 2002, PGE filed its third Quarterly Report as Advice No. 02-11. Actual/Forecast power costs were \$16.6 million below base power costs. Actual/Forecast energy revenues were \$80.9 million below base energy revenues. The Power Cost Variance was \$64.4 million and the collection amount was \$27.4 million. PGE proposed two recovery alternatives. Alternative A would have recovered the \$27.4 million over the remainder of 2002. Alternative B would have recovered the \$27.4 million over a 4.5-year period.

At the June 18, 2002, Regular Public Meeting the Commission adopted Staff's recommendation on Advice No. 02-11. The Commission suspended the tariff filing and postponed the recovery decision until after the August 15, 2002 Quarterly Report (Order No. 02-399).

On August 15, 2002, PGE filed its final Quarterly Report. Actual/Forecast power costs were \$14.1 million below base power costs. Actual/Forecast energy revenues were \$102.1 million below base energy revenues. The Power Cost Variance was \$83.6 million and the collection amount was \$43.8 million. Forecasted power costs and energy revenues were derived using the load forecast from the July 1, 2002, Resource Valuation Mechanism filing (Docket UE 139). PGE continued to support Alternative B as the appropriate method for recovering the expected PCA balance.

On October 7, 2002, PGE filed Advice No. 02-19 (referencing Advice No. 02-11). The company updated its forecast for the 15-month Power Cost Variance. Actual/Forecast

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<sup>1</sup> Power Cost Variance=(Actual/Forecast NVPC – Base NVPC) – (Actual/Forecast Energy Revenue – Base Energy Revenue). The Quarterly Reports cover actual/forecast net variable power costs and energy revenues for the entire 15-month period ending December 31, 2002.

power costs were \$15.9 million below base power costs. Actual/Forecast energy revenues were \$79.3 million below base energy revenues. The Power Cost Variance was \$63.4 million and the collection amount was \$26.6 million. Forecasted power costs and energy revenues were derived using the load forecast from the May 16, 2002 Quarterly Report. At that time, the company believed that the May load forecast was the best forecast for October through December 2002. In addition, whereas prior forecasts were derived using calendar busbar loads adjusted for line losses, this forecast was derived using cycle meter loads. The cycle meter approach is more accurate since it does not depend on estimated losses. These factors account for the significant drop in the Power Cost Variance.

In Advice No. 02-19, PGE requested that the Commission: (1) address the amortization of the 15-month PCA balance prior to the end of 2002; and (2) adopt the company's Alternative B as filed in Advice No. 02-11 and modified in Advice No. 02-19.

As filed in Advice No. 02-11, Alternative B would first increase the Schedule 127 Power Cost Adjustment Rate to amortize the forecasted \$26.6 million PCA balance over a 4.5-year period. Carrying costs at the company's approved cost of capital would total approximately \$6.2 million. Alternative B would then offset the Schedule 127 amortization by lengthening the remaining amortization period underlying Schedule 126 (Part A) from three to four years. Schedule 126 (Part A) is currently amortizing the power costs deferred during the period January 2001 through September 2001 (Order No. 02-215). Extending the amortization period would increase carrying costs by approximately \$4.6 million. However, the offset would also allow PGE to begin amortizing the 15-month PCA balance without increasing retail rates.

As modified in Advice No. 02-19, Alternative B would extend the exemption of large non-residential customers who chose a pricing option other than the annual cost of service option in 2002 from collections under Schedule 127 for the duration of the amortization. In other words, the amortization under Schedule 127 would continue to apply to all customers who were served under a cost of service option in 2002.

On October 3, 2002, the Industrial Customers of Northwest Utilities (ICNU) submitted comments on Advice No. 02-11. ICNU indicated it was concerned that failure to collect the outstanding balance by the end of 2002 violates both the UE 115 Stipulation and the terms of Schedule 127. ICNU opposed any attempt by PGE to collect interest on the PCA balance past December 31, 2002. ICNU requested that the Commission resolve this issue expeditiously.

Staff, PGE, ICNU, and CUB began discussing alternative amortization scenarios on November 4, 2002. PGE extended the requested effective date of Advice No. 02-19 on November 4, 2002, November 14, 2002, and November 25, 2002.

#### Stipulation on the Schedule 127 Power Cost Adjustment Rates

As of the date of the execution of the Schedule 127 Stipulation, PGE projects the 15-month PCA collection amount to be \$33 million. The \$6.4 million increase over PGE's projection in its October 7, 2002 Quarterly Report is largely attributable to a forced outage of Colstrip Unit No. 3. Colstrip Unit No. 3 experienced the forced outage on November 22, 2002. The reason for the outage is still under investigation. The outage damaged the rotor, which was removed and sent off-site for repairs. The unit is expected to be off-line for the remainder of 2002.

In Order No. 02-772, related to PGE's Resource Valuation Mechanism ("RVM") for 2003, the Commission disallowed certain costs related to four disputed power purchase contracts based, in part, on an alternative proxy price proposed by Staff. (See Order No. 02-772, page 14). Staff had calculated its alternative proxy price as the average of the on-peak prices for 2003 from PGE's forward price curve used in its July 27, 2001 Monet run filed in docket UE 115. After Order No. 02-772 was issued, PGE discovered, and brought to the attention of the Parties, an error that affected the calculation of Staff's alternative proxy price. In its July 27, 2001, Monet run PGE updated the forward prices for July 2001 through December 2002 to those established on July 20, 2001; however, the forward prices for January 2003 through December 2003 were not updated, and continued to reflect forward prices established in May 2001. As a result, Staff's alternative proxy price was not calculated using July 2001 forward prices, but forward prices established in May 2001. If the Commission had calculated the cost disallowance in Order No. 02-772 using an alternative proxy price actually calculated from forward prices established on July 2, 2001, then the disallowance would have been approximately \$6.3 million higher. PGE disputes the appropriateness of: (i) any disallowance of costs related to the four power purchase contracts at issue in Docket UE 139; (ii) the calculation of the disallowance in Order No. 02-772; and (iii) the calculation of the \$6.3 million RVM error.

On December 17, 2002, the parties signed a Stipulation on the Schedule 127 Power Cost Adjustment Rate (Schedule 127 Stipulation). The Schedule 127 Stipulation resolves all issues related to the calculation and recovery of PGE's 15-month PCA balance, as well as all issues related to Order No. 02-772 in Docket UE 139. Key provisions of the Schedule 127 Stipulation include:

- PGE's actual costs and revenues for October 1, 2001 through December 31, 2002 shall be subject to a prudence review and audit. Schedule 127 contains a true-up provision for prudence adjustments made by the Commission.
- The 15-month PCA collection amount shall be reduced by \$4.558 million. This reduction is to be applied after application of the PCA sharing mechanism and the calculation catch-up interest.
- The collection amount shall be allocated to Schedule 83 customers and non-Schedule 83 customers on a pro rata basis based on actual 15-month loads.
- The Schedule 127 amortization period for customers on Schedule 83 shall be one year.
- The Schedule 127 amortization period for non-Schedule 83 customers shall be two years.
- PGE Schedule 83 or 583 customers with usage greater than 5 MWa during 2002 may elect to pay their share of the balance with a single lump-sum payment.
- Balances in the PCA account shall collect interest at PGE's authorized cost of capital.
- PGE shall file revisions to the Schedule 127 rates as necessary to recover the PCA balance over the appropriate time periods.
- Any remaining (at the end of 2003 for Schedule 83, and at the end of 2004 for all other rate Schedules) balance will be collected from or returned to customers, as appropriate, in a manner determined by the Commission.

The Schedule 127 Stipulation is attached to this Staff report and is offered into the record of this proceeding pursuant to OAR 860-014-0085 (Attachment A). All of the parties in this proceeding have signed the Schedule 127 Stipulation. The parties agree that the Schedule 127 Stipulation is in the public interest and results in an overall fair, just and reasonable outcome. This Staff report supports the Schedule 127 Stipulation and is offered as explanatory brief or written testimony pursuant to OAR 860-014-0085(4).

The application of revised Schedule 127 will cause PGE's amortization of deferrals subject to ORS 757.259 to exceed 3% of PGE's gross revenues for 2002. The parties waive whatever rights they may have to object to the application of revised Schedule

127 on that basis and agree to request that the Commission take all actions and make all findings necessary to allow revised Schedule 127 and the charges to customers pursuant to that Schedule to become effective for service from PGE on and after January 1, 2003.

ORS 757.259(4) contemplates an earnings review at the time of application for amortization, unless that amortization is the subject of an automatic adjustment clause under ORS 757.210(1). The Department of Justice (DOJ) has indicated that the PCA approved in Order No. 01-777 is an automatic adjustment clause under ORS 757.210(1); therefore ORS 757.259(4) does not require an earnings review prior to adjusting Schedule 127 rates. According to DOJ, the PCA adopted in Order No. 01-777 and the Schedule 127 amortization are ministerial in nature. The earnings review in ORS 757.259(4) is intended for amortizations that are not ministerial in nature. Furthermore, the parties expressly addressed any earnings review in the UE 115 Stipulation Concerning Power Costs:

"The Parties shall request that the Commission allow PGE to amortize into rates, both before and after December 31, 2002...the Adjustment Amount produced by the application of Schedule 127, notwithstanding the results of any earnings review that the Commission may be required to conduct under ORS 757.259. In any such earnings review, the Parties shall support full recovery or refund of the Adjustment Amount without any adjustment, except those adjustments specifically allowed in this Stipulation." (Order No. 01-777, Stipulation Concerning Power Costs, Section 4(b)).

On December 18, 2002, PGE updated Advice No. 02-19 and withdrew Advice No. 02-11 (UE 143) in its entirety. The company filed First Revisions of Sheet Nos. 126-1, 126-2, and 126-3 to remove the Part B credits that terminate at the end of 2002. The Part A amortization of power costs deferred during the period January 2001 through September 2001 continues as per Order No. 01-231.

PGE also filed First Revisions of Sheet Nos. 127-4 and 127-5 to conform to the terms of the Schedule 127 Stipulation. The First Revision of Sheet No. 127-1 remains as filed on October 7, 2002. PGE also filed an Application to Waive Statutory Notice for the changes to be effective January 1, 2003.

Finally, PGE provided a table showing the current collection rate per rate schedule and the proposed collection rate per rate schedule that includes the proposed Schedule 127 collection and the changes approved in Advice Nos. 02-24, 02-25, and 02-26 at the December 17, 2002 Regular Public Meeting. This table is attached to this Staff Report (Attachment B). The table shows January 1, 2003, rate reductions of 1.9 percent for

residential consumers, 9.0 percent for Schedule 32 consumers, and 10.7 to 16.9 percent for Schedule 83 consumers.

**PROPOSED COMMISSION MOTION:**

- The Schedule 127 Stipulation be adopted.
- Issues regarding Schedule 127 collections and reconsideration of Order No. 02-772 in UE 139 be found to be resolved.
- The Staff report be found to comply with the explanatory brief or written testimony requirement of OAR 860-014-0085(4).
- Portland General Electric's Application to Waive Statutory Notice filed on December 18, 2002, be approved.
- First Revision of Sheet Nos. 126-1, 126-2, and 126-3 filed in Advice No. 02-19 be allowed into effect on January 1, 2003, with less than statutory notice.
- First Revision of Sheet Nos. 127-1, 127-4, and 127-5 filed in Advice No. 02-19 be allowed into effect on January 1, 2003, with less than statutory notice.

*UE 115 PCA III PMM*

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

In the Matter of

PORTLAND GENERAL ELECTRIC

(Advice No. 02-19 referencing Docket No. UE  
143/Advice No. 02-11) Requesting an increase  
in Schedule 127 Power Cost Adjustment Rate

STIPULATION

1

**PARTIES**

2           1.       The parties to this Stipulation are Portland General Electric Company (“PGE” or  
3 “the Company”), the Staff of the Public Utility Commission of Oregon (“Staff”), the Industrial  
4 Customers of Northwest Utilities (“ICNU”), and the Citizens’ Utility Board (“CUB”) (referred to  
5 individually as a “Party” and collectively as the “the Parties”).

6

**BACKGROUND**

7           2.       In UE-115, the Parties, as well as Fred Meyer stores, entered into a Stipulation  
8 Concerning Power Costs (“Power Cost Stipulation”), dated July 27, 2001. The Power Cost  
9 Stipulation provided, among other things, for a power cost adjustment (“PCA”) mechanism for the  
10 period from October 1, 2001, to December 31, 2002 (“2002 PCA”). The PCA was implemented  
11 through Schedule 127, which was a stipulated rate schedule attached to the Power Cost Stipulation.  
12 The Power Cost Stipulation and Schedule 127 were adopted by the Oregon Public Utility  
13 Commission (“OPUC” or “Commission”) in Order No. 01-777. PGE also is amortizing a deferred  
14 PCA balance for the period January 2001, through September 2001 (“2001 PCA”), pursuant to  
15 Schedule 126. Order No. 02-215.

1           3.       Schedule 127 provides that the rate for collecting any PCA balance “shall be  
2 revised on a quarterly basis [and set] to bring the projected balance of the Power Cost Adjustment  
3 Account . . . to zero at the end of 2002.” Schedule 127, Original Sheet No. 127-4. PGE has a  
4 projected PCA balance for 2002 of approximately \$33 million. As of the date of execution of this  
5 Stipulation, none of the balance of PGE’s 2002 PCA account has been collected from customers.

6           4.       On May 16, 2002, PGE filed Advice No. 02-11, which proposed two alternatives  
7 for recovering the PCA balance. “Under Alternative A, PGE would set the Power Cost  
8 Adjustment Rate in accordance with the power cost stipulation,” meaning that the projected  
9 balance would be recovered in 2002. Under Alternative B, PGE would collect the PCA balance  
10 over a 4 ½ year period. The Commission elected to suspend the proposed tariff changes and did  
11 not adopt either proposal. Order No. 02-399. On October 7, 2002, PGE filed Advice No. 02-19  
12 (referencing Advice No. 02-11), which requested that the Commission adopt Alternative B and  
13 approve changes to Schedule 126 and Schedule 127. The purpose of the changes is to increase  
14 rates to recover the balance in the 2002 PCA account and to extend the amortization period for  
15 recovery of the balance in the 2001 PCA account. ICNU opposes the requested tariff amendments  
16 on the basis that they violate the terms of the Power Cost Stipulation. PGE disagrees with ICNU.

17           5.       In Order No. 02-772, related to PGE’s Resource Valuation Mechanism (“RVM”)  
18 for 2003, the Commission disallowed certain costs related to four disputed power purchase  
19 contracts based, in part, on an alternative proxy price proposed by Staff. (See Order No. 02-772,  
20 page 14). Staff had calculated its alternative proxy price as the average of the on-peak prices for  
21 2003 from PGE’s forward price curve used in its July 27, 2001 Monet run filed in docket UE 115.  
22 After Order No. 02-772 was issued, PGE discovered, and brought to the attention of the Parties, an  
23 error in the calculation of Staff’s alternative proxy price. In its July 27, 2001 Monet run, PGE  
24 updated the forward prices for July 2001, through December 2002, to those established on July 20,  
25 2001; however, the forward prices for January 2003 through December 2003 were not updated,

1 and continued to reflect forward prices established in May 2001. As a result, Staff's alternative  
2 proxy price was not calculated using July 2001 forward prices, but forward prices established in  
3 May 2001. If the Commission had calculated the cost disallowance in Order No. 02-772 using an  
4 alternative proxy price actually calculated from forward prices established on July 2, 2001, then  
5 the disallowance would have been approximately \$6.3 million higher. This error in the calculation  
6 of the amount of the RVM cost disallowance is referred to herein as the "RVM Error." PGE  
7 disputes the appropriateness of: (i) any disallowance of costs related to the four power purchase  
8 contracts at issue in Docket UE 139; (ii) the calculation of the disallowance in Order No. 02-772;  
9 and (iii) the calculation of the RVM Error.

10 6. The Parties wish to resolve all issues related to PGE's RVM for 2003 and all issues  
11 related to the calculation and recovery of PGE's 2002 PCA balance. The parties submit this  
12 Stipulation to the Commission and request that the Commission approve it in its entirety.

### 13 **AGREEMENT**

14 7. The Parties agree that PGE's 15-month Power Cost Variance shall be based on  
15 PGE's actual costs and revenues for October 1, 2001, through December 31, 2002 as required by  
16 the Power Cost Stipulation ("Power Cost Variance"). All amounts included in the Power Cost  
17 Variance shall be subject to a prudence review and audit. Any amount disallowed by the  
18 Commission as a result of such prudence review or audit shall be removed from the Power Cost  
19 Variance along with recalculated interest ("Adjusted Power Cost Variance"). PGE's "Adjustment  
20 Amount" shall be an amount calculated by applying the sharing bands established in the Power  
21 Cost Stipulation to the Adjusted Power Cost Variance. Catch-up interest shall be determined in  
22 accordance with Schedule 127 as  $\frac{1}{2}$  of the Adjustment Amount multiplied by 15 months of the  
23 Company's authorized rate of return. Catch-up interest shall be recalculated and the difference  
24 returned to customers in the event of a prudence disallowance or an audit adjustment. The parties  
25 agree that PGE's "Recovery Amount" shall be an amount calculated as the Adjustment Amount

1 plus catch-up interest minus \$4.558 million in recognition of the RVM Error and the settlement of  
2 all issues covered by this Stipulation. PGE agrees not to seek rate recovery of the \$4.558 million  
3 adjustment. PGE shall amortize the Recovery Amount through rate adjustments determined on the  
4 following basis. The Recovery Amount shall be allocated to Schedule 83 consumers and Non-  
5 Schedule 83 consumers pro rata, based on actual 15-month loads, from October 2001, through  
6 December 2002. Rate Schedule 83 Allocation = Recovery Amount \* (Rate Schedule 83 15-month  
7 Eligible Loads/Total Eligible Loads). The Schedule 127 charge for customers on Schedule 83  
8 shall be designed to recover the Schedule 83 customers' pro rata share of the Recovery Amount  
9 over one year. The Schedule 127 charge for all other customers shall be designed to recover such  
10 customers' pro rata share of the Recovery Amount over two years. Schedule 127 shall not apply  
11 to: a) Schedule 99 special contract customers who did not purchase at a cost of service rate in  
12 2002; b) Schedule 83 customers who were served under any rate other than the annual cost of  
13 service rate during 2002; and c) BPA power delivered for service to residential customers.

14 8. Notwithstanding the above, any PGE Schedule 83 or 583 Consumer (as defined in  
15 the PGE tariff) with usage equal to or greater than 5 MWa during 2002 (43,800 MWhs) may elect  
16 to pay its share of the 2002 PCA charges in the form of a single lump-sum payment (Lump-Sum  
17 Payment). The Lump Sum Payment shall be calculated on a pro rata basis, based on each  
18 consumer's 15-month loads (Lump Sum Payment = Rate Schedule 83 Allocation \* (Consumer's  
19 15-month Loads/Rate Schedule 83 actual 15-month Eligible Loads). Lump Sum Payment  
20 customers shall not pay any interest on the PCA balance for 2003 or 2004. PGE shall provide  
21 written notice to each customer entitled to make a Lump Sum Payment no later than January 10,  
22 2003. The notice shall specify the estimated amount of the Lump Sum Payment. The Customer  
23 may elect to make the Lump Sum Payment by providing written notice to PGE by January 17,  
24 2003, and by making payment of the estimated amount included in the PGE notice by February 10,  
25 2003. PGE shall provide a final bill for the Lump Sum Payment no later than March 31, 2003.

1 The final bill will reflect the estimated payment received, and any remaining amounts owed to  
2 PGE shall be due 20 days after receipt of bill. If the final bill results in amounts owed by PGE, it  
3 will issue a check to the customer by no later than April 21, 2003. A customer that elects to make  
4 a Lump Sum Payment of its share of the balance in the 2002 PCA account shall not be required to  
5 pay any other amounts under Schedule 127 and shall not have any further liability related to PGE's  
6 2002 PCA. If a prudence disallowance or any changes associated with an audit related to the 2002  
7 PCA occur after PGE calculates the amount of a Lump Sum Payment, PGE shall recalculate the  
8 Lump Sum Payment. If the Lump Sum Payment has already been made, PGE shall issue a refund,  
9 which includes recalculated catch-up interest, to the customer making the Lump Sum Payment.  
10 Consumers selecting the Lump Sum Payment option will not experience any Schedule 127 rate  
11 change associated with increases or decreases in Schedule 83 loads for 2003.

12 9. Uncollected balances in PGE's 2002 PCA account shall accrue interest pursuant to  
13 the method described in the Power Cost Stipulation.

14 10. PGE shall file revisions to Schedule 127 as necessary to accomplish the purposes of  
15 this Stipulation. PGE may true-up the Schedule 127 rates effective July 1, 2003, based on actual  
16 and projected loads to recover the balance of the 2002 PCA account over the appropriate time  
17 period (one year for Schedule 83, two years for all other rate schedules) and the actual PCA  
18 balance. PGE will consult with the signing parties prior to making a decision whether to modify  
19 the collection rates. Parties are free to take any position before the Commission with regard to any  
20 modification of the collection rates. The adjustment rates will terminate at the end of 2004, except  
21 for Schedule 83, the adjustment rate for which will terminate at the end of 2003. Any remaining  
22 (at the end of 2003 for Schedule 83, and at the end of 2004 for all other rate Schedules) balance  
23 will be collected from or returned to customers, as appropriate, in a manner determined by the  
24 Commission. Schedule 127 is attached and incorporated in the terms of this Stipulation.

1           11.     The parties agree and consent to the Commission approving revised Schedule 127  
2 as attached to this Stipulation on less than statutory notice to be applied to service from PGE on  
3 and after January 1, 2003.

4           12.     Each party agrees that this Stipulation is a final and complete settlement of all  
5 issues, matters and claims that were raised or could have been raised in Commission docket UE-  
6 139. Notwithstanding this provision, the Parties reserve the right to raise issues related to FERC  
7 investigations in Dockets in PA02-2 and EL02-114. Each party agrees that it will not ask the  
8 Commission to reconsider, will not file any suit or action to set aside, and will not appeal all or any  
9 part of Commission Order No. 02-722. In addition, PGE agrees to withdraw its request to change  
10 the amortization rate of the balance of the 2001 PCA account under Schedule 126.

11           13.     Each Party agrees that, with the exception of the prudence review and audit, that  
12 this is a complete and final settlement of all issues, matters, and claims that were raised or could  
13 have been raised regarding Schedule 127 attached hereto as well as Schedule 127 as originally  
14 filed and as implemented by PGE. In addition, the parties abandon and waive any claims that PGE  
15 violated the terms of the original Power Cost Stipulation in the implementation of Schedule 127.

16           14.     The Parties request that the Commission approve this Stipulation, and take  
17 all actions and make all findings necessary to implement the rate changes proposed herein to  
18 become effective on January 1, 2003; provided that, such changes shall not apply to customers  
19 who elect to make the Lump Sum Payment pursuant to paragraph 8.

20           15.     The application of revised Schedule 127 will cause PGE's amortization of deferrals  
21 subject to ORS § 757.259 to exceed 3% of PGE's gross revenues for the preceding calendar year.  
22 The parties waive whatever rights they may have to object to the application of revised Schedule  
23 127 on that basis and agree to request that the Commission take all actions and make all findings  
24 necessary to allow revised Schedule 127 and the charges to customers pursuant to that Schedule to  
25 become effective for service from PGE on and after January 1, 2003.

1           16. All amounts included in the 2002 PCA account shall be subject to a prudence  
2 review and audit. Any amount disallowed by the Commission as a result of any prudence review  
3 or audit shall be removed from the 2002 PCA account, and any interest shall be recalculated, and  
4 the difference will be refunded. The prudence review and audit will be completed by December  
5 31, 2003.

6           17. The Parties agree that this Stipulation is in the public interest and results in an  
7 overall fair, just and reasonable outcome.

8           18. The Parties agree that this Stipulation represents a compromise in the positions of  
9 the parties. As such, conduct, statements and documents disclosed in the negotiation of this  
10 Stipulation shall not be admissible as evidence in this or any other proceeding.

11           19. This Stipulation will be offered into the record of this proceeding as evidence  
12 pursuant to OAR § 860-14-0085. Staff's memorandum will serve as testimony supporting this  
13 Stipulation. The Parties agree to support this Stipulation throughout this proceeding and any  
14 appeal, and recommend that the Commission issue an order adopting the settlements contained  
15 herein.

16           20. If this Stipulation is challenged by anyone, the Parties to this Stipulation reserve the  
17 right to cross-examine witnesses and put on such case as they deem appropriate to respond fully to  
18 the issues presented, including the right to raise issues that are incorporated in the settlements  
19 embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this  
20 Stipulation agree that they will continue to support the Commission's adoption of the terms of this  
21 Stipulation.

22           21. The Parties have negotiated this Stipulation as an integrated document. If the  
23 Commission rejects all or any material portion of this Stipulation or imposes additional material  
24 conditions in approving this Stipulation, any Party disadvantaged by such action shall have the  
25 right to withdraw from this Stipulation upon written notice to the Commission and the other

1 Parties within five (5) business days of actual notice that the Commission has rejected all or any  
2 material portion of this Stipulation or has added a material condition in approving this Stipulation.

3 22. By entering into this Stipulation, no Party shall be deemed to have approved,  
4 admitted or consented to the facts, principles, methods or theories employed by any other party in  
5 arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any  
6 provision of this Stipulation is appropriate for resolving issues in any other proceeding.

7 23. This Stipulation may be executed in counterparts and each signed counterpart shall  
8 constitute an original document.

9 This Stipulation is entered into by each Party on the date entered below such party's  
10 signature.

11 DATED: December 18, 2002.

PORTLAND GENERAL ELECTRIC

STAFF OF THE OREGON  
PUBLIC UTILITY COMMISSION

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

INDUSTRIAL CUSTOMERS OF  
NORTHWEST UTILITIES

CITIZENS' UTILITY BOARD

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

TABLE 3  
 PORTLAND GENERAL ELECTRIC  
 ESTIMATED EFFECT ON CONSUMERS' TOTAL ELECTRIC BILLS  
 2003

CATEGORY	RATE SCHEDULE	Forecast SSEPO2N03 CONSUMERS	MWH SALES	TOTAL ELECTRIC BILLS		Change	
				CURRENT	PROPOSED	AMOUNT	PCT.
Residential	7	658,120	7,165,972	\$592,715,807	\$581,311,645	(\$11,404,162)	-1.9%
Employee Discount				(\$685,436)	(\$672,405)	\$13,031	
Subtotal				\$592,030,371	\$580,639,239	(\$11,391,131)	-1.9%
Outdoor Area Lighting	15	2,219	25,467	\$4,191,336	\$4,019,471	(\$171,866)	-4.1%
General Service <30 kW	32	75,531	1,356,296	\$122,308,851	\$111,342,930	(\$10,965,920)	-9.0%
Opt. Time-of-Day G.S. >30 kW	38	211	53,987	\$4,788,741	\$4,295,353	(\$493,387)	-10.3%
Irrig. & Drain. Pump. < 30 kW	47	3,121	21,971	\$2,013,766	\$1,720,683	(\$293,083)	-14.6%
Irrig. & Drain. Pump. > 30 kW	49	1,417	64,189	\$4,608,200	\$3,715,957	(\$892,243)	-19.4%
General Service >30 kW							
Secondary	83-S	12,073	5,676,065	\$424,330,997	\$379,019,597	(\$45,311,400)	-10.7%
Primary	83-P	263	2,571,665	\$169,058,309	\$147,823,609	(\$21,234,700)	-12.6%
Subtransmission	83-T	6	1,013,029	\$58,625,916	\$48,889,210	(\$9,936,706)	-16.9%
Street & Highway Lighting	91	602	95,840	\$15,335,628	\$14,569,512	(\$766,116)	-5.0%
Traffic Signals	92	14	6,628	\$468,075	\$407,128	(\$60,947)	-13.0%
Recreational Field Lighting	93	29	568	\$85,644	\$80,963	(\$4,681)	-5.5%
Drainage Districts	97	2	1,214	\$91,458	\$84,043	(\$7,415)	-8.1%
Special Contracts	99	2	665,828	\$28,694,898	\$28,994,831	\$299,933	1.0%
<b>TOTAL (CYCLE YEAR BASIS)</b>		753,611	18,718,718	\$1,426,632,189	\$1,325,402,527	(\$101,229,662)	-7.1%
<b>CONVERSION ADJUSTMENT</b>			(14,997)	(\$1,142,985)	(\$1,061,883)		
<b>TOTAL (CALENDAR YEAR BASIS)</b>			18,703,721	\$1,425,489,204	\$1,324,340,645	-\$101,148,559	-7.1%