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**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UE 149

In the Matter of )  
)  
PORTLAND GENERAL ELECTRIC )  
COMPANY )  
)  
Application for Annual Adjustment to )  
Schedule 125 under the terms of the )  
Resource Valuation Mechanism )

**ORDER**

DISPOSITION: STIPULATIONS ADOPTED

**I. INTRODUCTION**

On April 1, 2003, Portland General Electric Company (PGE) filed its annual revision of its power supply costs under its Schedule 125. Schedule 125 was developed as part of a stipulation between PGE, customer groups, and the Commission Staff concerning power costs during PGE’s last general rate case.<sup>1</sup> Schedule 125 establishes an annual resource valuation mechanism (RVM) adjustment, which PGE must file on November 15 of each year and which is effective January 1 of the following year.

The annual RVM adjustment helps PGE unbundle its costs into functional cost categories for recovery in rates. PGE recovers its power supply costs through an Energy Charge and RVM rates, which when summed, yield the cost of service rate. The Energy Charges are set at the projected market value of power for the following year. To forecast its net variable power costs, PGE uses a production cost model called Monet. The RVM adjustment rate (Schedule 125) consists of two parts: Part A for Long-Term Resources, and Part B for Short-Term Resources.<sup>2</sup> Both of these adjustments, which may be a charge or a credit, are generally determined by the difference between the projected costs and the projected market value of each resource. To determine the projected market value, PGE utilizes the same forward curve used to set the Energy Charge described above. The RVM adjustments also establish transition charges or credits for those who choose alternative energy supply options or direct access.

<sup>1</sup> *In the Matter of Portland General Electric*, Docket No. UE 115, Order No. 01-777 at Appendix D.

<sup>2</sup> Long-Term Resources are defined as those with an initial term of longer than five years.

In its preliminary filing, PGE forecasted its 2004 power costs to be \$484 million. This amounts to a 6.8 percent increase or \$31 million from the 2003 RVM forecast. Based on this initial projection, PGE's rates increase by an overall average of about 3 percent, with a smaller percentage for residential customers and a larger percentage for business and industrial customers.

With its filing, PGE also proposed the adoption of a Power Cost Adjustment (PCA) to address the uncertainty in forecasting power costs.<sup>3</sup> PGE sought a PCA to provide a sharing mechanism between customers and shareholders of significant unexpected deviations in PGE's power costs from the base net variable power costs set in this proceeding.

In response to PGE's filing, the Industrial Customers of Northwest Utilities (ICNU), the Citizens' Utility Board (CUB) and the Commission Staff (Staff), the Kroger Co., Strategic Energy LLC (Strategic), and Constellation New Energy (Constellation) raised disputes related to the types of updates and adjustments proposed by PGE. Several parties, as well as PGE, filed testimony and exhibits addressing PGE's initial filing.

## II. STIPULATIONS

Pursuant to the procedural schedule adopted for this docket, the parties held numerous settlement discussions. As a result of those discussions, the parties executed two stipulations to resolve all issues related to PGE's 2004 RVM filing. We address each stipulation separately.

### **General Stipulation**

On August 9, 2003, PGE, ICNU, CUB, and Staff submitted a stipulation to resolve all issues with the exception of certain proposed tariff changes to the true-up mechanism in Schedule 125. The General Stipulation, which is attached as Appendix A, and explanatory brief were entered into the record of this proceeding as evidence pursuant to OAR 860-014-0085(1).

PGE, ICNU, CUB, and Staff agree that the General Stipulation is in the public interest and request that the Commission adopt it. The key features of the General Stipulation include:

#### ***1. Repricing of Power Contracts***

For the purpose of calculating the 2004 annual RVM update pursuant to Schedule 125, PGE will make a final RVM filing on November 17, 2003. The stipulating parties agree that, in that filing, PGE will reprice five of its wholesale power purchase contracts as

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<sup>3</sup> The Commission previously approved a stipulated PCA for PGE as part of docket UE 115. In last year's RVM adjustment, however, PGE withdrew its request for a PCA mechanism in 2003.

specified in paragraph 1 of the Stipulation. The impact of this repricing adjustment will be a \$1.66 million reduction in PGE's forecasted 2004 NVPC used to determine the 2004 annual RVM update. The stipulating parties further agree that the repricing of the wholesale power purchase contracts applies only to the 2004 RVM proceeding and that the stipulating parties reserve the right to raise all arguments regarding the proper ratemaking treatment of these contracts in a future proceeding.

## ***2. Monet Enhancements/Modeling***

The stipulating parties agree that PGE will remove the 13 enhancements and changes to the Monet model proposed in PGE's initial 2004 RVM filing. The estimated impact of the removal of those 13 enhancements and changes to the Monet model is a \$7.644 million reduction in PGE's forecasted NVPC for 2004. PGE agrees not to make any additional enhancements to the Monet model before the Final RVM Filing.

Unless modified by unanimous agreement of the stipulating parties or through a general rate case, the stipulating parties agree not to propose, in any 2005 or 2006 RVM proceedings, any enhancements or changes to the Monet model used in the final 2004 RVM filing other than enhancements for changes in hydro modeling or Beaver and Coyote Springs dispatch modeling. PGE agrees that it will make its initial 2005 RVM filing no later than April 1, 2004.

The stipulating parties agree to hold workshops regarding (i) hydro modeling enhancements and Beaver and Coyote Springs dispatch modeling and (ii) power purchasing and supply strategies. The stipulating parties agree to participate in a process to address whether there is a need for, and the structure of, a cost recovery mechanism for variances in power costs from forecasted levels.

## ***3. Coal Costs***

The stipulating parties agree to the treatment of coal commodity cost and coal transportation costs in the 2004 RVM, as set forth in paragraphs 7 through 10 of the General Stipulation. Paragraph 8 of the General Stipulation provides, among other things, that nothing in the General Stipulation prevents any stipulating party from challenging the deferred accounting application identified in paragraph 8 or amortization of the Deferred Amount on the basis that the coal transportation contracts PGE signs after October 15, 2003, are imprudent.

## ***4. PCA Mechanism***

PGE agrees to withdraw the proposed PCA mechanism. Unless all stipulating parties agree, PGE will not file a new PCA mechanism before January 1, 2004.

## ***5. Rate Case***

The stipulating parties agree that PGE reserves the right to file a general rate case

at any time, and each of the stipulating parties reserves its right to take any position in a rate case regarding the RVM or PGE's power costs, including that the RVM process for calculating power costs should be eliminated. In the event of a general rate case filing, the stipulating parties agree that the General Stipulation shall remain in effect until modified by a final order by the Commission in the general rate case.

### **Load Shift True-Up Stipulation**

On August 19, 2003, PGE, ICNU, Kroger, Strategic, Constellation, and Staff filed a stipulation to resolve the remaining issue related to PGE's proposed tariff changes to the true-up mechanism in Schedule 125. The Load Shift True-Up Stipulation, which is attached as Appendix B, and explanatory brief were entered into the record of this proceeding as evidence pursuant to OAR 860-014-0085(1).

The load shift true-up is an adjustment to Schedule 125 Part A or B rates that is designed to capture the power cost changes resulting from unanticipated changes in the elections of large nonresidential customers between (1) the Short-Term Resource Notices submitted one year in advance under Schedule 125 and (2) the pricing option elections under Schedule 83 made the next November for the following year. The unanticipated changes in pricing option selections result when a large nonresidential customer's pricing option election differs from its earlier notice to PGE. For example, a change occurs when a customer informs PGE that it will be leaving the cost-of-service rate, but then later selects the cost-of-service pricing option. Schedule 125 currently allows PGE to adjust the Part A or Part B adjustment if the net difference in power cost changes resulting from these unanticipated election changes is greater than 25 average aMW.

In its initial 2004 RVM filing, PGE proposed to change the true-up threshold from 25 aMW to a net cost impact of \$250,000 or more, and to apply the change to the RVM adjustment rate to only those customers causing the net shift in load. Some parties disagreed with PGE's characterization of the elections made by large nonresidential customers and opposed PGE's proposed tariff change. They noted that the PGE tariff requires that the customer's Part B decision must be made more than ten months in advance of the pricing option decision that occurs during the shopping window the following November. Therefore, they view the Part B decision and the pricing option decision as logically and chronologically distinct, and object to PGE's characterization that customers have "changed" their elections, thereby "causing" an increase in power costs. These parties believe that focusing the entire amount of any load shift true-up on specific customers would be unfair and punitive.

Without resolving these different positions with respect to the load shift true-up, PGE, ICNU, Kroger, Strategic, Constellation, and Staff executed the Load Shift True-Up Stipulation to resolve the issue for purposes of this proceeding. These parties agree that the

Load Shift True-Up Stipulation is in the public interest and request that the Commission adopt it. The key provisions of the Load Shift True-Up Stipulation include:

***1. True-Up Threshold***

The Stipulating Parties agree that the Load shift true-up will be revised to reflect the change from an aMW to a dollar threshold. Under this revision, if the difference in loads from customers changing their initial service option results in a net cost impact of \$250,000 or greater, then PGE may adjust the Part A or Part B adjustment for large nonresidential consumers to account for this change in power costs.

***2. Commission Proceedings***

The Stipulating Parties agree not to propose any other changes to the Load shift true-up section of Schedule 125 in connection with the 2004 RVM. PGE reserves the right to propose further changes to the Load shift true-up mechanism, including but not limited to changes in how the power costs related to the Load shift true-up are allocated to customers, in future Commission proceedings.

**III. DISCUSSION**

The Commission encourages parties to a proceeding to voluntarily resolve issues to the extent that such actions further the public interest. In this case, the parties that actively participated in this proceeding have executed two stipulations to resolve all outstanding issues. No party has filed an objection to the Stipulation, and the time for doing so has expired.

After review, the Commission concludes that the terms of both the General Stipulation and the Load Shift True-Up Stipulation fairly balance the interests of customers and PGE and result in a fair and just outcome. Accordingly, both stipulations should be adopted in their entirety without modification.

The stipulations reduce PGE's variable power cost estimate by approximately \$9.3 million. The exact impact on customer rates will not be known until November 17, the date PGE will make its final Monet run that produces the RVM adjustment for 2004. While we are unable to precisely calculate the rate impact on each customer class, we estimate an overall rate increase of approximately 2.5 percent, instead of the initial 3 percent increase initially projected by PGE.

**ORDER**

IT IS ORDERED that:

- (1) The August 6, 2003, stipulation, executed by Portland General Electric, the Industrial Customers of Northwest Utilities, the Citizens' Utility Board, and the Commission Staff, is adopted.

- (2) The August 19, 2003, stipulation, executed by Portland General Electric, the Industrial Customers of Northwest Utilities, the Kroger Co., Strategic Energy, LLC, Constellation NewEnergy, Inc., and the Commission Staff, is adopted.
- (3) Portland General Electric shall make the final Monet run, with updated forward curves for gas and electricity, on November 17, 2003, producing the Resource Valuation Mechanism adjustment for 2004.

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

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**Roy Hemmingway**  
Chairman

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**Lee Beyer**  
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 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.