

ORDER NO. 04-293

ENTERED MAY 24, 2004

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BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UM 1039

In the Matter of	)	
	)	
PORTLAND GENERAL ELECTRIC	)	ORDER
COMPANY	)	
	)	
Application for an Order Approving Deferral	)	
of Changes in Power Costs.	)	

**DISPOSITION: STIPULATION ADOPTED**

On June 16, 2003, this docket was reopened to conduct an audit and prudence review of Portland General Electric’s (PGE) Power Cost Adjustment mechanism (PCA). On April 16, 2004, Portland General Electric Company (PGE), Staff of the Public Utility Commission of Oregon (Staff), and the Industrial Customers of Northwest Utilities (ICNU) (collectively, the Parties) filed a Stipulation (Prudence Review Stipulation) to settle all remaining issues in this docket. The Prudence Review Stipulation and Staff’s Explanatory Brief are attached as Appendix A and are incorporated by reference.

**Power Cost Adjustment**

On August 31, 2001, the Commission adopted a Stipulation Concerning Power Costs (Power Cost Stipulation) in Order No. 01-777, entered in docket number UE 115, PGE’s last general rate case. The Parties, the Citizens’ Utility Board (CUB), and the Fred Meyer Stores entered into the Power Cost Stipulation. The Power Cost Stipulation provided for, among other things, the operation of a PCA for a fifteen-month (15-month) period, beginning October 1, 2001 and ending December 31, 2002.

The purpose of the PCA was to account, during the 15-month period, for variations between the forecasted and actual power costs and energy revenues by calculating a Power Cost Variance (PCV),<sup>1</sup> and to provide a method for the company and its customers to

<sup>1</sup> The PCV has two components: power costs and energy revenues. The power cost component is calculated by subtracting PGE’s base net variable power cost (NVPC), as determined in UE 115, from PGE’s actual NVPC. The energy revenue component is calculated similarly, by subtracting PGE’s UE 115 base energy revenues for the 15-month period of the PCA from PGE’s actual energy revenues. The PCV tracks the difference between actual and base NVPC less the difference between actual and base energy revenues for the 15-month period pursuant to the following calculation:

$$PCV = (Actual\ NVPC - Base\ NVPC) - (Actual\ Energy\ Revenues - Base\ Energy\ Revenues)$$

share the benefits and burdens of the variations through rate changes implemented between general rate cases.

The Power Cost Stipulation provided that the 15-month PCA would be implemented through Schedule 127.<sup>2</sup> The PCA subjects the PCV to a deadband, which allocates a designated amount to PGE alone, with no refund to or recovery from customers. Any PCV savings or costs remaining after the deadband are allocated in designated percentage bands, set forth in Schedule 127, between PGE and ratepayers. The ratepayers' share increases with the amount of the variance. After application of the deadbands and sharing percentages, an Adjustment Amount is calculated. The Adjustment Amount represents the portion of the PCV that PGE collects from customers.

During the 15-month operation period of the PCA, Schedule 127 tracked the PCV. The Power Cost Stipulation also provided that PGE could defer any balance that remained in the PCA Account after the end of the 15-month period. On October 1, 2001, PGE filed an Application for a Deferred Accounting Order seeking to defer the balance contained in the PCA Account. In Order No. 01-1108, the Commission approved PGE's application and reauthorized the deferred account in Order No. 02-400.

### **Prudence Review and Procedural History of This Docket**

During the 15-month period, PGE filed quarterly reports providing the forecasted PCV and the forecasted Adjustment Amount. On December 18, 2002, the Parties and CUB signed a stipulation regarding Schedule 127 and the 15-month PCA (the Schedule 127 Stipulation). The Commission adopted the Schedule 127 Stipulation in Order No. 02-894, entered on December 30, 2002, in Docket UE 145.

Among other things, the Schedule 127 Stipulation subjected PGE's power costs and energy revenues during the 15-month PCA period to a prudence review and audit. The Schedule 127 Stipulation also provided a true-up provision for prudence adjustments made by the Commission, including that "catch-up interest shall be recalculated and the difference returned to customers in the event of a prudence disallowance or an audit adjustment."

Following reopening of this docket to conduct an audit and prudence review, a prehearing conference was held on June 30, 2003. Pursuant to the schedule set forth in a Prehearing Conference Memorandum issued on July 1, 2003, Staff, PGE and ICNU filed opening and reply comments concerning the scope of the docket. In Order No. 03-543, entered on September 10, 2003, the Commission established the scope of this proceeding to be a prudence review of "all the NVPC and Energy Revenues that make up the PCV," including contracts and commitments entered into prior to September 12, 2001. This scope was affirmed by the Commission in Order No. 04-001, entered on January 5, 2004, after PGE's application for reconsideration.

Staff hired independent, third party consultants to audit PGE's costs. On October 30, 2003, Hayet Power Systems and Convector Consulting NA, Inc., jointly submitted

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<sup>2</sup> Portland General Electric Tariff No. E-17, Original Sheet No. 127-4.

an “Audit of Portland General Electric’s Power Cost Adjustment Balance on Behalf of the Public Utility Commission of Oregon.” The audit indicated that, at the end of the 15-month period, the final PCV was \$79.9 million. *See* Audit of PGE’s Power Cost Adjustment Balance—Final Report, October 30, 2003. The final PCA Account balance, after making adjustments provided for in the Schedule 127 Stipulation and Order No. 02-894, including interest, was \$38.3 million. *See* PGE Advice No. 03-5, dated May 1, 2003. The audit concluded “the Company’s calculation of its Net Variable Power Costs for purposes of determining the Power Cost Variance for the 15-month period is reasonable and accurate.” The audit recommended no changes to the PCV or the PCA Account.

After Staff and ICNU filed issues lists in this proceeding, PGE filed opening testimony on January 30, 2004. On April 2, 2004 and April 7, 2004, Commission Staff, ICNU and PGE attended settlement conferences. Parties attending the settlement conferences addressed the issues identified by Commission Staff and ICNU, and reviewed and discussed additional documentation and information provided by PGE in response to requests by Commission Staff and ICNU. During the settlement conferences, the Parties identified and agreed that an error, in the amount of approximately \$400,000, had been made in allocating coal loss within the 15-month period.

As a result of the examination of the issues pending in this docket, the Parties agreed and entered into the Prudence Review Stipulation resolving all outstanding issues. The Parties represent that the only other party in this docket, CUB, does not oppose the Prudence Review Stipulation. No party filed a written objection to any part of the Prudence Review Stipulation or requested a hearing within the authorized time period. *See* OAR 860-014-0085(5).

### **Prudence Review Stipulation**

The primary term agreed to by the Parties to the Prudence Review Stipulation is a total reduction of the PCA Account balance by the amount of one million dollars (\$1,000,000). As represented by the Parties, this total reduction amount reflects a compromise among the Parties as an acceptable settlement of their differing positions. The total reduction amount includes a decrease to the PCA Account balance of approximately \$400,000 in order to correct the cost allocation error identified during the settlement conferences.

As provided for by the Schedule 127 Stipulation, the catch-up interest to be applied to the PCA Account balance shall be recalculated pursuant to the \$1,000,000 adjustment. The Parties agreed that the \$1 million reduction (plus that portion of the catch-up interest to be returned to customers) in the PCA Account balance would be allocated to customers in the same manner that the original PCA Account balance was allocated for purpose of amortization. The method for allocation is set forth in Order No. 02-894 and the Schedule 127 Stipulation. The Parties represent that this allocation method is fair to customers. Finally, the Parties agree that refunds to customers that elected the Lump Sum Payment option shall be made pursuant to the Schedule 127 Stipulation.

The Parties agree that the Prudence Review Stipulation is a final and complete settlement of all issues, matters, and claims that were raised or could have been raised in this docket. The Parties also agree that the Prudence Review Stipulation is in the public interest and that the overall outcome is fair, just and reasonable.

**Commission Disposition**

The Commission has examined the Prudence Review Stipulation, Staff’s supporting brief, and the pertinent record in the case. The Commission concludes that the Prudence Review Stipulation is an appropriate resolution of all the pending issues in this docket. The Commission adopts the Prudence Review Stipulation and directs PGE to adjust the PCA Account balance consistent with the Prudence Review Stipulation and this Order.

**ORDER**

IT IS ORDERED that:

1. The Prudence Review Stipulation is adopted.
2. Portland General Electric shall adjust the Power Cost Adjustment balance consistent with the Prudence Review Stipulation and this Order.

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

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**Lee Beyer**  
Chairman

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**John Savage**  
Commissioner

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**Ray Baum**  
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.