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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1170

In the Matter of)	
)	ORDER
PORTLAND GENERAL ELECTRIC)	
)	
Request for approval to classify certain gas)	
transportation costs as capital expenditures.)	

DISPOSITION: APPLICATION APPROVED

On September 24, 2004, Portland General Electric (PGE) filed an application requesting an accounting order for classifying as capital expenditures certain costs associated with a gas transportation contract executed on behalf of the Port Westward power plant, currently under construction. According to ORS 757.120 and 757.125, the Public Utility Commission of Oregon has complete authority over PGE's accounting practices. A description of PGE's efforts to obtain gas transportation for the generating facility is detailed in Staff's Report, attached as Appendix A, and incorporated by reference. Staff believes PGE's decision to secure firm transportation prior to operation of the generating facility appears reasonable.

At its Public Meeting on November 23, 2004, the Commission adopted Staff's recommendation to classify PGE's costs associated with a gas transportation contract on behalf of Port Westward as capital expenditures.

ORDER

IT IS ORDERED THAT Portland General Electric's application requesting that certain gas transportation costs be classified as capital expenditures is approved, and is allowed into effect on November 1, 2004, for accounting purposes only. Ratemaking treatment shall be reserved for ratemaking proceedings.

Made, entered, and effective _____.

BY THE COMMISSION:

Becky L. Beier
Commission Secretary

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.

ITEM NO. CA4

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 23, 2004**

REGULAR _____ **CONSENT** _____ **EFFECTIVE**
DATE X November 1, 2004

DATE: November 2, 2004

TO: Lee Sparling through Ed Busch and Judy Johnson

FROM: Carla Owings

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1170) Request for approval to classify certain gas transportation costs as capital expenditures.

STAFF RECOMMENDATION:

Staff recommends approval of PGE's request to classify certain gas transportation costs as capital expenditures effective November 1, 2004, for accounting purposes only, with later consideration for ratemaking treatment.

BACKGROUND:

On September 24, 2004, Portland General Electric (PGE or Company) filed a request for an Accounting Order pursuant to ORS 757.125, to classify as capital expenditures certain costs associated with a gas transportation contract executed on behalf of the Port Westward power plant, currently under construction.

PGE has recently "broken-ground" on the first phase of construction for the Port Westward generating facility adjacent to the Beaver Power Plant and projected to be completed in May of 2007. In its final action plan (LC 33), PGE anticipated requiring up to 69,000 Dekatherms (Dth)/day of additional natural gas supply capacity to fuel both Beaver and Port Westward. Further analysis showed an additional 11,000 Dth/day would adequately supply both Beaver and Port Westward. Additionally, the Company plans to implement back-up storage capacity closer to the on-line date for Port Westward.

Description of Costs:

On August 30, 2004, PGE secured firm gas transportation capacity of 11,000 Dth/day on the Williams Northwest Pipeline from Cargill, Inc. The contract became effective November 1, 2004, for a period of approximately four years with evergreen renewal

rights. The Company estimates the total pre-operational costs, for the time period of November 1, 2004, to April 30, 2007, is approximately \$3 million (or approximately \$100,000 per month).

The Commission's Authority over Accounting Treatment:

The Commission has complete authority over PGE's accounting practices (ORS 757.120 and 757.125). The Commission has adopted the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts for use by all electric utilities in Oregon (OAR 860-027-0045). The Commission may, however, allow a utility to depart from strict FERC accounting practices pursuant to OAR 860-021-0005.

DISCUSSION:

The Company proposes to recover these costs as they can demonstrate that their management decisions have saved approximately \$100 million in net present value of the potential overall cost of Port Westward, which will lower the Company's net power supply expenses.

In its application of September 24, 2004, the Company shows a summary analysis of four separate scenarios it considered in the investigation process to obtain gas transportation for the impending generating facility. Ultimately, the Company narrowed that to two alternative strategies for the purchase of gas transportation:

- a) Secure immediate capacity, or
- b) Wait and acquire transportation capacity when Port Westward will be close to completion.

The Company states that securing immediate transportation ensures that the capacity will be available upon completion of Port Westward. Alternatively, postponing would likely require that PGE participate in a pipeline expansion to gain the capacity and risk availability which could result in a delay in the desired on-line date for Port Westward. The cost estimates for the later alternative were nearly double the cost to secure firm transportation now, prior to actual plant operation.

The Company states that interruptible capacity is not an option, as it cannot later be converted to firm capacity. Additionally, the Company proposes to offset the cumulative costs by attempting to sell the unused capacity to either itself, for the Beaver generating facility, or to other users down-line on the Williams Northwest Pipeline. The Company proposes to only to capitalize only its "net" costs.

Staff reviewed the options the Company considered. Based on the information to date, Staff believes PGE's decision to secure firm transportation prior to the operation of the generating facility appears reasonable. Staff recommends the Commission allow the Company to capitalize the net costs for later consideration of ratemaking treatment in a future ratemaking proceeding. However, these costs should be subject to a prudence

review at the time PGE requests recovery in rates. The Commission should also assess whether PGE made a reasonable effort to resell, and maximize the value of, the transportation capacity until it is needed to serve Port Westward.

PROPOSED COMMISSION MOTION:

PGE's request to classify certain gas transportation costs as capital expenditures be approved effective November 1, 2004, for accounting purposes only. Ratemaking treatment shall be reserved for a ratemaking proceeding.

PGE UM 1170 Gas Trans. for Port Westward