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BEFORE THE PUBLIC UTILITY COMMISSION**

OF OREGON

UM 1014

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC COMPANY)	ORDER
)	
Application for an Order for Use of Rate Base)	
Property at the Beaver Generation Plant.)	

DISPOSITION: STIPULATION ADOPTED;
APPLICATION APPROVED

This docket began in 2001, when Portland General Electric filed a request for approval to site a 24.7 MW combustion turbine at its Beaver Generation Plant (Beaver 8). In response to the filing, PGE, the Commission Staff (Staff), the Citizens' Utility Board (CUB), and the Industrial Customers of Northwest Utilities (ICNU) met on several occasions to determine how the revenues and costs associated with the new turbine should be treated for regulatory purposes. Those meetings resulted in a stipulated agreement initially adopted by the Commission in Order No. 01-473, and later clarified in Order No. 01-695.¹

As relevant here, the stipulation and Commission orders provided for a three-year, renewable agreement under which the revenues and costs of the plant's output would be shared between customers and PGE. During the period of the agreement, the plant would not be included in PGE's rate base, and the costs and revenues of Beaver 8 would not be recognized in determining PGE's rates.

The original three-year period under the stipulation and orders ended July 31, 2004, and the parties have elected not to renew the agreement. After settlement discussions, PGE, CUB and Staff entered into a stipulation (2004 Stipulation), attached as Appendix A, to resolve all outstanding issues in this docket. The 2004 Stipulation is supported by joint testimony filed by Maury Galbraith, representing Staff, Lowrey Brown, representing CUB, and Patrick Hager and Stephen Schue, representing PGE. The parties agree that the 2004 Stipulation is in the public interest and, if approved and implemented by the Commission, will provide rates for PGE that are fair, just, and reasonable. No party opposes the 2004 Stipulation.

Based on the record in this matter, the Commission makes the following:

¹ ICNU did not sign the stipulation, but stated that it did not oppose the agreement.

FINDINGS

The 2004 Stipulation governs the operation, costs, and benefits of Beaver 8 after July 31, 2004. The 2004 Stipulation terminates the prior agreement for the operation of Beaver 8 contained in the prior stipulation and orders. On and after August 1, 2004, PGE will treat Beaver 8 like any other PGE-owned generating asset included in rate base.

Based on the Stipulation adopted in 2001, the parties agree that customers owe PGE \$14.2 million for the purchase, installation, and other related costs for Beaver 8. The parties also agree that the current market value of Beaver 8 is \$4.0 million and that, for accounting purposes, Beaver 8 will be added to PGE's rate base accounts in that amount as of August 1, 2004. On that date, PGE will also begin depreciating the generating asset over its projected useful life.

The remaining \$10.2 million owed to PGE by customers will be accounted for as a regulatory asset on and after August 1, 2004. This asset will accrue interest, consistent with Commission policy, which currently is at PGE's authorized cost of capital, beginning August 1, 2004. The parties support collection of this balance through PGE's Tariff Schedule 105 between January 1, 2005, and December 31, 2009, subject to specified terms.

The 2004 Stipulation requires PGE to track the net variable margins associated with Beaver 8's operations and outlines how such margins must be calculated. The stipulation also requires PGE to reduce its power costs by \$50,000 per year as specified, and to include in its next general rate case a cost/benefit analysis of selling Beaver 8 rather than keeping it. If that analysis supports a sale of the plant, PGE must take appropriate action to do so and, if the plant is sold, 95 percent of the net gain or loss will go to customers and the remaining five percent to PGE.

Finally, the parties support PGE's request for an accounting order, previously filed on July 30, 2004, as modified consistent with the terms of the 2004 Stipulation.

CONCLUSIONS

The Commission has reviewed the terms of the 2004 Stipulation and supporting testimony. Based on that review, the Commission finds that the 2004 Stipulation is in the public interest for several reasons. As noted above, the parties to the 2004 Stipulation agree that customers owe PGE \$14.2 million as of August 1, 2004, for costs associated with Beaver 8. However, under the provisions of the stipulation and orders governing the first three-year agreement period, it could be demonstrated that customers actually owe \$14.8 million. Moreover, from a customer perspective, these capital and fixed costs are simply "sunk costs." Under the parties' agreement to value Beaver 8 at \$4 million and move the resource into regulated status, the customers obtain a cost-effective capacity acquisition. Indeed, for an opportunity cost (foregoing the possibility of selling Beaver 8), of less than \$4 million, customers acquire a reliable 24.7 MW capacity turbine.

In addition, the parties note that customers also benefit from the regulatory lag inherent in the treatment of the \$4 million component of the total \$14.2 million repayment to PGE. Although this component will go into ratebase and will be depreciated beginning August 1, 2004, it will not go into retail rates until the effective date of the tariffs resulting from PGE's next general rate case. Furthermore, the 2004 Stipulation gives customers 50 percent of the net variable margins produced by Beaver 8 until the effective date of rates from PGE's next general rate case, as well as a \$50,000 per year reduction in power costs at least until December 31, 2006.

Accordingly, the Commission concludes that the 2004 Stipulation should be adopted, and PGE's application for an accounting order, as modified to reflect the terms of the 2004 Stipulation, be approved.

ORDER

IT IS ORDERED that:

1. The 2004 Stipulation, attached as Appendix A and submitted for the purpose of resolving issues related to the operation, costs, and benefits of Beaver 8 after July 31, 2004, is adopted. Commission Orders No. 01-473 and 01-695 are modified accordingly.
2. Portland General Electric Company's application for an accounting order is approved, as follows:
 - a. PGE shall account for Beaver 8's net variable margins pursuant to the terms described in paragraph 5 of the 2004 Stipulation;
 - b. PGE is authorized to retain \$4.0 million in FERC Account No. 101, allowing appropriate depreciation rates for the projected useful life of Beaver 8; transfer \$10.2 million to FERC Account No. 182.3; transfer amounts related to accumulated deferred taxes related to Beaver 8 to PGE's regulated books; and include 50 percent of the net variable margins as defined in paragraph 5 in the 2004 Stipulation as an offset to the \$10.2 million transferred to FERC Account No. 182.3; and

- c. The \$10.2 million identified in Section 9-c in the 2004 Stipulation, as adjusted for 50 percent of the net variable margins, shall accrue interest consistent with Commission policy, currently at PGE's authorized cost of capital, beginning August 1, 2004.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

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.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1014

In the Matter of the Application of)	
PORTLAND GENERAL ELECTRIC)	STIPULATION AMONG PORTLAND
COMPANY for an Order for Use of Rate)	GENERAL ELECTRIC, OPUC STAFF,
Base Property at Beaver Generation Plant)	AND CITIZENS' UTILITY BOARD OF
)	OREGON
)	

This Stipulation (“ 2004 Stipulation”) is among Portland General Electric Company (“PGE”), Staff of the Public Utility Commission of Oregon (“Staff”), and the Citizens’ Utility Board of Oregon (“CUB”) (collectively, the “Parties”).

On June 13, 2001, Order No. 01-473 was entered in this docket. That Order adopted a stipulation between PGE, Staff and CUB regarding PGE’s application to place a new combustion turbine at the Beaver Generation Plant site. On August 1, 2001, a Supplemental Order, Order No. 01-695, was entered pursuant to a Request for Clarification of Stipulation filed by PGE, Staff and CUB (collectively, the “Stipulations”). The Supplemental Order clarified the original Stipulation and incorporated some additional terms. The Stipulations so adopted by the Commission set forth terms as to how the revenues and costs of the new turbine and associated equipment (referred to as “Beaver 8”) would be treated for regulatory purposes. The terms provided, in part, that, during the period of the agreement, the turbine would not be included in PGE’s ratebase, and the cost and revenues of Beaver 8 would not be recognized in determining PGE’s rates. The Stipulations and Orders provided for a three-year, renewable agreement under which the revenues and costs of the plant’s output would be shared between customers and PGE.

At the time the Stipulations and Orders were entered the Parties anticipated that variable margins from the sale of power from Beaver 8 in the wholesale market would pay for the plant

and provide net revenues to be split between customers and PGE. Unfortunately, due to changes in the wholesale power market, Beaver 8 has not been economic to run during most of the three-year period.

The original three-year period under the Stipulations ended on July 31, 2004. The Parties have elected not to renew the agreement contained in the Stipulations. The Parties held a settlement conference in this matter on July 15, 2004, and engaged in further discussions on August 4, 2004, and September 14, 2004, to attempt to resolve all outstanding issues in this docket including moneys owed, the future use of, and ratemaking treatment for, Beaver 8. As a result of those settlement discussions, the Parties are entering into this 2004 Stipulation and agree as follows:

1. This 2004 Stipulation governs the operation, costs, and benefits of Beaver 8 after July 31, 2004. On and after August 1, 2004, Beaver 8 will no longer be run under the unique status prescribed by the earlier Stipulations and Orders in this docket. Instead PGE will treat and dispatch Beaver 8 like any other PGE owned generating asset included in its rate base. PGE will maintain, make capital additions to, procure natural gas for, and run Beaver 8 so as to minimize net costs to customers.
2. The Parties agree that customers owe PGE \$14.2 million for costs related to Beaver 8 pursuant to the earlier Stipulations and Orders. Those costs are primarily for the purchase and installation of the turbine.
3. The Parties agree that the current value of Beaver 8 is \$4.0 million (market value of turbine plus site improvements) and that, for accounting purposes, Beaver 8 will be added to PGE's ratebase accounts in that amount as of August 1, 2004. If the Commission finds that this requires a waiver of OAR 860-038-0080 (1) (b), the

Parties request such a waiver. Beginning August 1, 2004, PGE will depreciate this generating asset over its projected useful life. The Parties agree to support the inclusion of this generating asset as a part of PGE's ratebase in PGE's next general rate case, provided PGE demonstrates that Beaver 8 is "used and useful." The Parties also agree to support inclusion of associated depreciation and prudently incurred operations and maintenance expense for Beaver 8 in PGE's test year revenue requirement.

4. The remaining \$10.2 million owed to PGE by customers will be accounted for as a regulatory asset on and after August 1, 2004. The regulatory asset will accrue interest, consistent with Commission policy, which is currently at PGE's authorized cost of capital (presently 9.083%), beginning August 1, 2004. The Parties agree to support collection of the balance of this regulatory asset through PGE's Tariff Schedule 105 between January 1, 2005, and December 31, 2009, subject to the following two terms:
 - a. Excluding the effects of interest, PGE will collect no more than 60% of the \$10.2 million initial regulatory asset balance prior to January 1, 2007, and
 - b. If, prior to the effective date of an Order setting rates in PGE's next general rate case, the Commission issues an Order that determines that new ratebase assets can be added on a cost basis, then beginning on the effective date of rates set in PGE's next general rate case the then outstanding balance of the regulatory asset will be amortized over the remaining projected useful life of Beaver 8. The test year ratebase in

that rate case will include the test-period average unamortized balance of the regulatory asset. Associated amortization and operations and maintenance expense components will also be part of the test year revenue requirement.

- The Parties agree to support PGE's application for recovery of interest associated with the \$10.2 million, consistent with Commission policy, which is currently at PGE's overall authorized cost of capital (presently 9.083 percent) commencing August 1, 2004. PGE has taken accelerated depreciation on Beaver 8 for income tax purposes. The Parties agree that existing accumulated deferred taxes related to Beaver 8 will be transferred from PGE's non-regulated books to its regulated books, and will be a credit to PGE's ratebase in any appropriate future rate proceedings.
5. For the period from August 1, 2004 to the effective date of rates set in its next general rate case, PGE will track the net variable margins associated with Beaver 8's operations, including testing runs. These net variable margins will be calculated on a daily basis. On-peak power generated will be valued at the daily Dow Jones Mid-Columbia Firm on-peak index. Off-peak power generated will be valued at the daily Dow Jones Mid-Columbia Firm off-peak index. Natural gas burned will be valued at the daily Sumas gas index, plus gas transportation charges. In addition, line losses and variable O&M will be included in the net variable margin calculation. PGE will include 50 percent of these actual variable margins as an offset to the \$10.2 million regulatory asset and associated interest described in paragraph 4 above. This treatment is specific to Beaver 8 and only for the period from August 1, 2004, to the effective date of rates set in PGE's next general rate case.

6. PGE will reduce power costs by \$50,000 per year from August 1, 2004, until the effective date of rates set in PGE's next general rate case in the following manner:
 - a. For the period from August 1, 2004, through December 31, 2005, net variable power costs ("NVPC") in PGE's final 2005 Resource Valuation Mechanism ("RVM") filing in docket UE 161 will be reduced by \$70,902. The reduction will be applied to Part B of Schedule 125.
 - b. NVPC in PGE's 2006 RVM proceeding will be reduced by \$50,000. The reduction will be applied to Part B of Schedule 125. If new rates resulting from a PGE general rate case ("New Rates") are not effective on or before January 1, 2007, then a similar reduction in NVPC in the annual amount of \$50,000 will be made until the effective date of New Rates.
7. In its next general rate case filing, PGE will include a cost/benefit analysis of selling the Beaver 8 unit rather than keeping it. If PGE's analysis demonstrates that the sale of Beaver 8 would be cost-effective for customers at that time, PGE will file the appropriate application(s) to do so. If the Beaver 8 unit is sold, 95 percent of the net gain or loss from such a sale will go to customers and the remaining five percent to PGE. The net gain or loss will be determined using the then current book value.
8. The Parties agree not to challenge the prudence of the original purchase of Beaver 8 or its inclusion in ratebase pursuant to this Stipulation.

9. The Parties agree to use their best efforts to support any applications filed by PGE requesting the Commission adopt the following orders implementing this 2004

Stipulation:

- a. An order confirming termination of the agreement for Beaver 8 operation contained in the Stipulations and amending prior Orders in order to permit PGE to operate and dispatch Beaver 8 as a PGE owned generating plant in PGE's rate base;
- b. An order directing PGE to account for Beaver 8's net variable margins, as described in paragraph 5 above;
- c. An accounting order implementing this 2004 Stipulation, specifically authorizing PGE to retain \$4.0 million in FERC Account No. 101 and transfer \$10.2 million to FERC Account No. 182.3; allowing appropriate depreciation rates for the projected useful life of Beaver 8; transferring amounts related to accumulated deferred taxes related to Beaver 8 to PGE's regulated books, and directing that 50 percent of the net variable margins as defined in paragraph 5 above be an offset to the \$10.2 million transferred to FERC Account No. 182.3;
- d. An accounting order allowing interest to accrue on the \$10.2 million in Section 9-c above, as adjusted for 50 percent of the net variable margins, consistent with Commission policy, which is currently at PGE's authorized cost of capital, beginning August 1, 2004;
- e. An order allowing collection of the regulatory asset, including an adjustment for net variable margins, and associated interest, described in

this 2004 Stipulation commencing January 1, 2005, under the terms of this 2004 Stipulation; and

- f. An order including Beaver 8 in rate base together with all associated depreciation, amortization, and prudently-incurred operations and maintenance expense in connection with PGE's next rate case under the terms of this 2004 Stipulation.

10. The Parties agree that this 2004 Stipulation resolves all the issues in this docket.

11. The parties agree that this 2004 Stipulation is in the public interest and if approved and implemented by the Commission will provide rates for PGE that are just, fair and reasonable.

12. The parties shall file this 2004 Stipulation with the Commission. The Parties agree to support this 2004 Stipulation before the Commission and before any court in which this 2004 Stipulation may be considered. If the Commission rejects all or any material part of this 2004 Stipulation, or adds any material condition to any final order which is not contemplated by this 2004 Stipulation, each party reserves the right to withdraw from this 2004 Stipulation upon written notice to the Commission and the other Parties within five (5) business days of service of the final order rejecting this 2004 Stipulation or adding such material condition.

13. This 2004 Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR § 860-014-0085. The Parties agree to cooperate in drafting and submitting any explanatory brief or written testimony required by OAR § 860-014-0085(4).

14. The Parties agree to confer regarding any dispute concerning this 2004 Stipulation and make a good-faith effort to resolve such dispute prior to bringing an action or complaint to the Commission or any court with respect to such dispute
15. The Parties agree that this 2004 Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this 2004 Stipulation shall not be admissible as evidence in this or any other proceeding. The Parties agree that a Commission order adopting this stipulation will not be cited as precedent in other proceedings for the matters resolved in this stipulation.
16. This 2004 Stipulation may be signed in any number of counterparts, each of which will be an original for all purposes, but all of which taken together will constitute one and the same agreement.
17. The Parties agree that to the extent the terms of this 2004 Stipulation are inconsistent with prior agreements or stipulations, the terms of this 2004 Stipulation govern and supercede such prior agreements and stipulations.
18. By entering into this 2004 Stipulation, no Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other Party in arriving at the terms of the Stipulation. Except as provided in this Stipulation, no Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

DATED this 19th day of November, 2004.

PORTLAND GENERAL ELECTRIC CO.

By: _____

STAFF OF THE OREGON PUBLIC
UTILITY COMMISSION

By: _____

CITIZENS' UTILITY BOARD

By: _____