

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1066

In the Matter of an Investigation Into)
Regulatory Policies Affecting New)
Resource Development.) ORDER

DISPOSITION: DOCKET HELD IN ABEYANCE

In docket AR 417, the Public Utility Commission of Oregon (Commission) left one issue unresolved: whether to amend OAR 860-038-0080(1)(b) to require new generating resources to be included in the revenue requirement at cost, or maintain the current language of including new generating resources in the revenue requirement at market price, and not add the resource to an electric company’s rate base. In October 2002, the Commission opened this investigation to resolve this issue by examining regulatory policy pertaining to new generating resources. The Commission staff (Staff) was directed to organize workshops to discuss:

- 1. How should new generating resources be treated for ratemaking?
- 2. In planning for new resources, which customers should the plan be designed to include?
- 3. In determining a resource acquisition policy, should competitive bidding occur, and, if so, to what extent?

See Order No. 02-872.

Since the docket was opened, Staff has held numerous workshops with the intervenors to discuss all aspects of the identified issues. In addition, the Commission held at least two workshops with the stakeholders. Subsequent to the last Commission workshop on December 16, 2003, intervenors and Staff filed several rounds of comments. On March 31, 2004, the Commission asked the intervenors and Staff to devise large customer opt-out proposals. Various parties filed comments to the Commission’s request, with the final comments being received on June 2, 2004.

During this same time period, Portland General Electric Company (PGE) was undergoing a review of its 2002 Integrated Resource Plan (IRP) in docket LC 33. As part of its IRP, PGE recommended the construction of a self-owned gas fueled resource, known as Port Westward. Concurrent with its request for approval of its IRP, PGE asked the Commission to waive the application of OAR 860-038-0080(1)(b) as it would apply to Port Westward. Specifically, PGE asked that it not be prohibited from including: the capital costs incurred in building Port Westward in PGE's rate base; the operation and maintenance costs of Port Westward in its revenue requirement; and the costs of acknowledged contracts with third parties in its revenue requirement.

While we had only one docket, we wrote two separate orders. In Order No. 04-375, we acknowledged the IRP. In making our decision, we reviewed the competitive bidding process used by PGE. This review aided our determination that PGE's construction of a generic gas resource was an acceptable resource to include in the IRP. In Order No. 04-376, we partially granted the waiver request. While we waived the application of OAR 860-038-0080(1)(b) as to the Port Westward matters, we did not make any decisions about the inclusion of any Port Westward costs in rates. *Id.* at 4.

With this background, we turn to the issues raised in this docket. The comments submitted provide numerous valid reasons for including new generating resources in a utility's revenue requirement at cost, rather than at market price. We are still concerned, however, that the use of a cost standard will cause a utility to favor its own proposed resources. Two of our open dockets are intended to address the incentive and ability of a utility to favor its own projects. One docket, UM 1182, will revise the competitive bidding guidelines to ensure resources are considered on an equal basis. The other docket, UM 1056, will modify the least-cost planning requirements to foster a timely, efficient acquisition of new resources. Finally, we intend to open an additional investigation docket later this year to consider the use of performance-based ratemaking to offset utility bias in favor of owning its own resources. We want to wait until those proceedings are resolved to issue our final decision in this docket.

During the interim, the existing market price administrative rule remains in effect. If an electric utility wants to include a new resource in its revenue requirement at cost, as did PGE in docket LC 33, then the utility must file a request to waive the administrative rule.

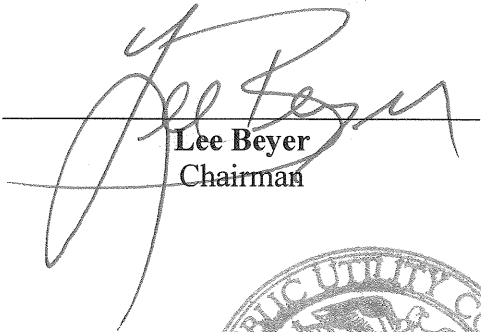
We also expect parties to continue their efforts to craft an option for large customers to opt out of PGE's and PacifiCorp's new generating resources. By September 30, 2005, each company should file either an opt-out tariff for our review or a consensus report explaining that an opt-out is not workable.

Our decision may frustrate some parties. We recognize that one of the reasons activity in docket UM 1056 was suspended in late 2002 was to obtain resolution of the cost or market issue in this docket. To keep docket UM 1056 viable, we direct the parties to focus on cost, not market. We want the utility resource plans to identify resources that provide the best mix of low cost and risk.

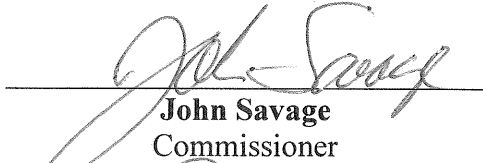
ORDER

IT IS ORDERED that this matter is held in abeyance pending resolution of dockets UM 1056 and UM 1182, completion of an investigation into performance based ratemaking, and a determination of whether a large customer opt-out of new generating resources for PGE and PacifiCorp is possible.

Made, entered, and effective MAR 17 2005



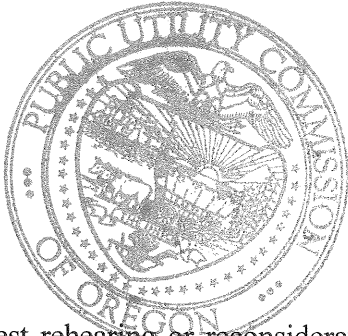
Lee Beyer
Chairman



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.