

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UP 234

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	
COMPANY)	ORDER
)	
Application for Approval of Asset Purchase)	
and Development Agreement in Sherman)	
County, Oregon.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On April 14, 2006, the Public Utility Commission of Oregon (Commission) received an application from Portland General Electric Company (PGE), requesting approval of (1) the sale of certain PGE property under the conditions described in their application, and (2) the encumbrance of PGE property that is necessary to allow PGE to complete the purchase of certain wind project (Biglow Project or Project) development assets and rights (collectively, Development Assets) in Sherman County, Oregon from Orion Energy LLC and Orion Sherman Wind Farm LLC (collectively, Orion).

On March 15, 2006, PGE entered into an Asset Purchase and Development Agreement (Agreement) with Orion for the acquisition of the Development Assets. The Agreement contemplates that Orion may repurchase from PGE all or a portion of uncompleted phases of the project. At the time Orion may have repurchase rights, portions of the assets subject to repurchase may be subject to ORS 757.480. In addition, the Agreement requires PGE to grant a lien to Orion on PGE's interest in certain utility property, also requiring approval under ORS 757.480.

OPINION

Under ORS 757.480, a public utility doing business in Oregon shall first obtain Commission approval for any transaction to sell, lease, assign or otherwise dispose of property. Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on June 13, 2006, the Commission adopted Staff's recommendation to approve PGE's application with certain conditions. Staff's recommendation is attached as Appendix A and is incorporated by reference.

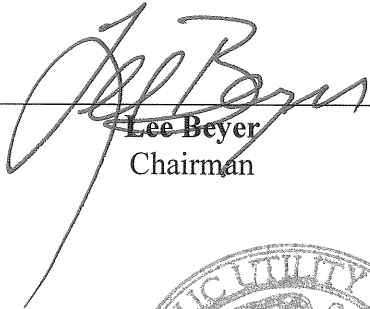
ORDER

IT IS ORDERED that the application of Portland General Electric Company is approved, subject to the following conditions:


1. Portland General Electric Company agrees that by approving the sale of certain Portland General Electric Company property under the conditions described in the application and the encumbrance of Portland General Electric Company property as described in the application, the Commission makes no determination regarding the prudence of costs incurred or the likelihood that the Commission will allow the wind project or any of its related costs into rates. In addition, Commission approval of the sale does not constitute a determination that the sale price is reasonable. Whether any of the costs associated with this transaction or the project will be included in rates is reserved for a ratemaking proceeding.
2. Beginning July 1, 2006, Portland General Electric Company agrees to include in its quarterly renewable resource update to the Commission, the overall status of the project, recent activities and whether Portland General Electric Company intends to allow the triggering of Orion Energy LLC's and Orion Sherman Wind Farm LLC's repurchase rights or to assign its rights to another party. In the event Portland General Electric Company intends to support or take actions that would lead to triggering of Orion Energy LLC's and Orion Sherman Wind Farm LLC's repurchase rights or to assign its (Portland General Electric Company's) rights, Portland General Electric Company agrees to provide sound analysis demonstrating that such action is in the interest of its customers.
3. Portland General Electric Company agrees to hold customers harmless from any increase in the cost of debt issued prior to December 31, 2007, due to the impact of the Second Trust Deed granted on the Project substation property.

- 4. Before Portland General Electric Company decides it does not wish to develop any of the phases of the wind development, Portland General Electric Company agrees to make commercially reasonable efforts to seek the greatest value for customers including, but not limited to, selling all or a portion of Portland General Electric Company's rights to the project or the remaining phases to a third party, unless Portland General Electric Company determines that an Orion Energy LLC and Orion Sherman Wind Farm LLC repurchase would provide more value to Portland General Electric Company's customers. Portland General Electric Company will provide periodic reports on this condition to the Commission pursuant to Condition #2.

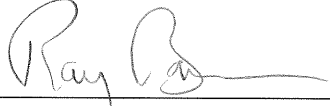
Made, entered, and effective JUN 13 2006.



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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 13, 2006

REGULAR X CONSENT EFFECTIVE DATE N/A

DATE: June 6, 2006

TO: Public Utility Commission

FROM: Bryan Conway *BAC*

THROUGH: *W* Lee Sparling and Marc Hellman *MB*

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 234) Application for approval of asset purchase and development agreement in Sherman County, Oregon.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Portland General Electric's (PGE) application for (1) the sale of certain PGE property as described in their application, and (2) the encumbrance of PGE property that is necessary or useful for providing service to the public, subject to the following conditions:

1) PGE agrees that by approving the sale of certain PGE property under the conditions described in the application and the encumbrance of PGE property as described in the application, the Commission makes no determination regarding the prudence of costs incurred or the likelihood that the Commission will allow the wind project or any of its related costs into rates. In addition, Commission's approval of the sale does not constitute a determination that the sale price is reasonable. Whether any of the costs associated with this transaction, or the project will be included in rates is reserved for a ratemaking proceeding.

2) Beginning July 1, 2006, PGE agrees to include in its quarterly renewable resource update to the Commission the overall status of the project, recent activities and whether PGE intends to allow the triggering of Orion's repurchase rights or to assign its rights to another party. In the event PGE intends to support or take actions that would lead to the triggering of Orion's repurchase rights or to assign its (PGE's) rights, PGE agrees to provide sound analysis demonstrating that such action is in the interest of its customers.

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3) PGE agrees to hold customers harmless from any increase in the cost of debt issued prior to December 31, 2007, due to the impact of the 2nd Trust Deed granted on the Project substation property.

4) Before PGE decides it does not wish to develop any of the phases of the wind development, PGE agrees to make commercially, reasonable efforts to seek the greatest value for customers including, but not limited to, selling all or a portion of PGE's rights to the project or to the remaining phases to a third party, unless PGE determines that an Orion repurchase would provide more value to PGE's customers. PGE will provide periodic reports on this condition to the Commission pursuant to paragraph #2.

DISCUSSION:

On April 14, 2006, PGE requested approval for (1) the sale of certain PGE property under the conditions (i.e., circumstances) as described in their application, and (2) the encumbrance of the PGE property that is necessary or useful for providing service. PGE states that both approvals are necessary to allow PGE to complete the purchase of certain wind project development assets and rights (collectively, "Development Assets") in Sherman County, Oregon from Orion Energy LLC and Orion Sherman Wind Farm LLC (collectively, "Orion").

On March 15, 2006, PGE entered into an Asset Purchase and Development Agreement (Agreement) with Orion for the acquisition of the Development Assets. The wind project to be constructed by PGE (Biglow Project or Project) has the potential for an expected aggregate installed capacity of up to 450 MW of wind-powered electric generations. The Biglow Project is expected to be constructed in phases, consisting of a first phase with an expected aggregate installed capacity of approximately 126 MW and one or more subsequent phases.

The Agreement contemplates that Orion may repurchase from PGE all or a portion of the Project should PGE be unwilling (or unable) to complete development of the Project. However, PGE represents that the repurchase rights apply only to uncompleted phases of the Project. PGE represents that Orion's repurchase right for the remaining Project is necessary for Orion to complete its development and receive the full economic benefit of the Development Assets initially conveyed to PGE. At the time Orion may have repurchase rights, portions of the assets subject to repurchase may be subject to ORS 757.480. In addition, the Agreement requires PGE to grant a lien to Orion on PGE's interest in certain utility property, which also requires approval under ORS 757.480. Orion's repurchase rights, both as to the assets repurchased and the price to be paid, and the details concerning the grant of lien, are specified in the Agreement.

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PGE represents that approval of this application will provide PGE with the opportunity to acquire what it believes is an economic renewable resource to meet its customers' load. However, the Commission is not being asked to determine if the Project is, or its associated costs are, prudent or should be included in customers' rates. The decision to include the Biglow Project in rates would be part of a ratemaking proceeding.

Under the Agreement, Orion will receive value in exchange for the Development Assets through two forms of payment: fixed development payments made upon the occurrence of certain events (e.g., project completion) and future periodic production payments based on electricity generated once the Biglow Project is constructed and operating (Royalty Payments). Of these two forms of payment, the Royalty Payments represent the majority of the value to Orion.

Because the majority of Orion's compensation comes from Royalty Payments, Orion requires a lien be placed on PGE's interest in the Biglow Project substation's site (the Substation Property) as well as the repurchase rights. The lien will be subordinate to PGE's First Mortgage Bond Indenture.

Staff's proposed conditions are intended to clarify the meaning of any Commission Order approving UP 234; to provide a guarantee that near-term borrowing costs will not rise due to the lien on the Substation Property; and, help ensure the Commission is well informed regarding PGE's intentions should PGE decide to allow Orion to repurchase any of the Development Assets. While PGE agrees with the proposed conditions, with reference to Condition #3, PGE represents that it does not believe an increase in borrowing costs is anticipated or likely.

Staff's proposed conditions were distributed to the parties in UP 234 and they were asked to comment or suggest edits or modifications. Staff's proposed conditions incorporate the comments by the parties and represent a consensus between CUB, ICNU, PGE, and Orion. No other parties submitted comments.

Staff's conditions serve to protect customers because they ensure borrowing costs will not rise due to the lien, and the conditions require PGE to seek maximum value for customers should PGE decide to dispose of all or a portion of the Biglow Project. Further, approval of the application does not imply approval of the costs of the project in rates so customers are protected should the project be deemed uneconomic. Should the project be constructed, PGE represents that the project would:

1. Add fuel diversity to PGE's power supply portfolio
2. Contribute to PGE being able to fill its power supply portfolio deficit

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3. Contribute to a reduction of greenhouse gas emissions
4. Enable PGE to meet its goal for the development of wind property consistent with the PGE's Integrated Resource Plan
5. Represent a long-term investment horizon with re-powering opportunities
6. Allow PGE the flexibility to pursue lower-cost opportunities by allowing PGE to trigger Orion's repurchase rights

PROPOSED COMMISSION MOTION:

Staff recommends that the Commission approve Portland General Electric's (PGE) application for (1) the sale of certain PGE property under the conditions as described in their application, and (2) the encumbrance of PGE property that is necessary or useful for providing service to the public subject to Staff's recommended conditions.

PGE – Biglow Project