ORDER NO. 07-445

ENTERED 10/17/07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 192

In the Matter of	)	
	)	
PORTLAND GENERAL ELECTRIC COMPANY	)	ORDER
	)	
2008 Annual Power Cost Update Tariff Filing.	)	

DISPOSITION: 2008 ANNUAL POWER COST UPDATE APPROVED AS MODIFIED

On April 2, 2007, Portland General Electric Company (PGE) filed an annual revision of its net variable power supply costs under its Schedule 125. Schedule 125 establishes an Annual Power Cost Update (APCU), which PGE must file on April 1 of each year and which is effective January 1 of the following year.[1] The APCU was approved in PGE's last general rate case and replaces the Resource Valuation Mechanism (RVM).[2] PGE has used the RVM to update its power cost forecast since its adoption as part of a power cost stipulation in docket UE 115.[3] The APCU is similar to the RVM, but is narrowly designed in order to avoid many of the disputes that developed over the complexity of the RVM process. The APCU is designed to allow PGE to annually revise customer rates to reflect changes in its projected power costs resulting from new information.[4] The updated power cost forecast will also be used as the baseline for comparing actual net variable power costs when PGE applies the power cost adjustment mechanism (PCAM) set forth in its Annual Power Cost Variance tariff.[5]

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[1] Portland General Electric Company, Schedule 125, Original Sheet 125-2.

[2] *In the Matter of Portland General Electric Company Request for a General Rate Revision*, Docket UE 180, Order No. 07-015 at 18 (January 12, 2007). The APCU was referred to in Order No. 07-015 as the Annual Update tariff.

[3] *In the Matter of Portland General Electric Company's Proposal to Restructure and Reprice its Services in Accordance with the Provisions of SB 1149*, Docket UE 115, Order No. 01-777 at 18-20 (August 31, 2001).

[4] Order No. 07-015 at 18.

[5] *See id.* at 19-27. *See also* Portland General Electric Company, Schedule 126.

PGE currently uses its MONET model to estimate its net variable power costs. The APCU tariff permits PGE to recalculate its power cost forecast each year, but limits the model inputs that PGE may change to the following:

- Forced Outage Rates based on a four-year rolling average.
- Projected planned plant outages.
- Forward market prices for both gas and electricity.
- Projected loads.
- Contracts for the purchase or sale of power and fuel.
- Changes in hedges, options, and other financial instruments used to serve retail load.
- Transportation contracts.[6]

In its preliminary APCU filing, PGE forecasted its 2008 power costs to be $777 million. Although this amount is greater than the $767.1 million forecasted for 2007, an increase in the 2008 cost-of-service load forecast offsets the increase, resulting in a small decrease in per MWh costs of approximately $0.31. Based on this initial projection, PGE estimates an overall rate reduction of 0.4 percent.

In response to PGE's initial filing, the Industrial Customers of Northwest Utilities (ICNU) and the Citizens' Utility Board of Oregon (CUB) propose various adjustments to PGE's 2008 power cost forecast. Public Utility Commission of Oregon (Commission) Staff (Staff) generally agrees with PGE's forecast, but seeks clarification regarding whether PGE should update revenues from the sale of ancillary services in future APCU filings.

PROCEDURAL HISTORY

On April 18, 2007, Christina Hayes, an Administrative Law Judge (ALJ) for the Commission, adopted a procedural schedule for this docket. PGE, ICNU, CUB, and Staff participated as parties.

After conducting discovery and filing testimony, the parties waived cross-examination of witnesses, and ALJ Sarah Wallace admitted prefiled testimony and exhibits into the record. The parties filed opening and reply briefs to the Commission on August 28 and September 18, respectively.

[6] Portland General Electric Company, Schedule 125, Original Sheet No. 125-1.

DISCUSSION

The parties have presented four issues for Commission resolution: (1) whether PGE's forecast of net variable power costs for 2008 includes an abnormally high forced outage rate for PGE's Boardman generating plant; (2) whether PGE's forecast should include an imputed extrinsic value for its Cold Snap capacity tolling contract; (3) whether PGE's forecast improperly includes updates to certain costs that are not specified in Schedule 125; and (4) whether future forecasts of PGE's power costs should include an updated estimate of PGE's revenues from the sale of net ancillary services.

Forced Outage Rate for Boardman

Parties' Positions. In calculating its 2008 APCU forecast, PGE updated the forced outage rates for its generating plants, including its Boardman plant. Consistent with our decision in PGE's last general rate case, PGE used a rolling four-year average to project Boardman's 2008 forced outage rate.[7] Due to unusually long forced outage periods in 2005 and 2006, PGE adjusted this four-year rolling average to exclude November 18, 2005, through June 6, 2006.[8]

CUB argues that PGE's projected forced outage rate for Boardman is "inflated due to the inclusion of periods of abnormal plant operation."[9] CUB asserts that a four-year rolling average is used to predict a plant's forced outage rate during "future, normal performance." Because Boardman's forced outage rates during the periods before and after the excluded period (January 2005 through November 17, 2005, and June 7, 2006, through December 31, 2006, respectively) were abnormally high, inclusion of the forced outage rates during these time periods skews the calculation of a four-year rolling average and results in an artificially high forecast of future forced outages.[10] CUB recommends the Commission entirely exclude the forced outage rates for 2005 and 2006 from the four-year average calculation and instead use Boardman's four-year average from 2001 through 2004 to calculate the projected forced outage rate to be used in PGE's APCU.[11] ICNU supports CUB's position.[12]

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[7] PGE/100, Tooman-Tinker-Shue/6. *See also* Order No. 07-015 at 15.
[8] PGE/100, Tooman-Tinker-Shue/6, 8.
[9] CUB Op. Br. at 1.
[10] *Id.* at 2-3.
[11] *Id*. at 10; CUB Reply Br. at 3-4.
[12] ICNU Reply Br. at 5-6.

Staff agrees that PGE's 2008 power cost forecast is "flawed because it includes an unrealistic forced outage rate for PGE's Boardman plant."[13] Staff declines to address that issue in this docket, however, because it believes that PGE's calculation is consistent with the Commission's decision in docket UE 180 and "the appropriate method for determining 'normal' equivalent forced outage rates" will be addressed in a generic docket opened specifically for that purpose.[14]

PGE rejects CUB's position, arguing that it is contrary to this Commission's decision in UE 180 that the removal of the November 17 through December 31, 2005, period is the appropriate method to account for the extraordinary 2005 Boardman outage.[15] CUB responds by arguing that the Commission did not consider the abnormal forced outage rate from January 1 through November 17, 2005, in the UE 180 decision, but merely excluded the period for which PGE had requested deferred accounting treatment for excess power costs resulting from the Boardman outage.[16]

PGE further argues that exclusion of the period from January 1, 2006, through June 6, 2006, from the four-year rolling average is consistent with the Commission's reasoning in the UE 180 order, and is therefore the appropriate method to account for the excessive forced outage rate in 2006.[17] CUB agrees that PGE's exclusion is consistent with the Commission's order, but argues that nothing in that order prevents PGE from excluding all of 2006 given the abnormally high forced outage rate throughout the year.[18]

PGE's final argument is that CUB's approach is inconsistent with the APCU tariff, which specifically states that forced outage rates are to be based on a four-year rolling average. CUB responds that PGE's proposal is also inconsistent with the tariff because the exclusion of the period from November 18, 2005, through June 6, 2006, results in a 3.4-year rolling average rather than a four-year rolling average.[19] CUB argues that an adjustment is necessary to account for the excessive outage rates in 2005 and 2006, and that its proposed adjustment is "closer to the original purpose of a rolling 4-year forced outage rate."[20]

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[13] Staff Op. Br. at 1.
[14] Staff/100, Galbraith/4.
[15] PGE Op. Br. at 4-5; PGE Reply Br. at 4-5.
[16] CUB Op. Br. at 8-9; CUB Reply Br. at 1-2.
[17] PGE Op. Br. at 4-5.
[18] CUB Op. Br. at 8-9; CUB Reply Br. at 1-2.
[19] CUB Reply Br. at 3.
[20] *Id.*

Resolution. The use of a four-year rolling average to forecast forced outage rates and the appropriate way to adjust the average to account for the anomaly caused by the extreme Boardman outage in 2005 were contentious issues in PGE's last general rate case, docket UE 180.[21] Although we recognized that the four-year rolling average may not be the most accurate forecast of future outages, we continued to use that calculation pending initiation and resolution of a generic docket to examine the issue.[22] To account for the anomaly caused by the extreme Boardman outage in 2005, we required PGE to remove the time period from November 18, 2005, through December 31, 2005, from the four-year rolling average.[23] This period corresponded to part of the period for which PGE had requested deferred accounting for excess power costs resulting from the outage.[24] PGE also requested deferred accounting for excess power costs incurred from January 1, 2006, through February 5, 2006.[25] The 2006 deferral period was not relevant in docket UE 180 because the calculation of projected forced outages was based on the four-year average of forced outage rates from 2002 through 2005. It is relevant in this docket, however, because PGE is updating its projected forced outage rate using the average of forced outage rates from 2003 through 2006.

We agree with PGE that CUB's proposal to exclude 2005 in its entirety from the four-year rolling average is inconsistent with our order in UE 180. In arguing that we did not consider the period from January 1 through November 17, 2005, CUB is reading our decision too narrowly. We found that the appropriate method to account for the anomaly caused by Boardman's abnormally high forced outage rate in 2005 was to exclude the period from November 18 through December 31.[26] In making this finding, we necessarily considered the forced outage rate for all of 2005. To adopt CUB's position in this docket, we would need to reject our previous conclusion and find that the appropriate method to account for the anomaly caused by the extended outage at Boardman in 2005 is to exclude 2005 in its entirety. This we decline to do.

Our decision in UE 180 did not, however, address the appropriate method to account for any anomaly in projected forced outage rates caused by Boardman's extended outage in 2006. PGE's proposed solution is to remove the period from January 1 through June 6, 2006, from the four-year rolling average.[27] The rationale for PGE's proposed exclusion is that it is consistent with the rationale for our decision in UE 180 because the January 1 through June 6, 2006, outage resulted from the same problem as the November 18 through December 31, 2005, outage.[28] CUB's proposed

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[21] *See* Order No. 07-015 at 13-15.
[22] *Id.* at 15.
[23] *Id.*
[24] *See In the Matter of Portland General Electric Company Application for Deferred Accounting of Excess Power Costs Due to Plant Outage*, Docket UM 1234, Order No. 07-049 at 1 (February 12, 2007).
[25] *See id.*
[26] Order No. 07-015 at 15.
[27] PGE/100, Tooman-Tinker-Schue/6-8.
[28] *See id*. *See also* PGE Op. Br. at 4-5.

solution is to exclude 2006 entirely because Boardman's abnormally high forced outage rate continued after June 6, 2006.[29]

We believe that the removal of the period from January 1 through June 6, 2006, is the appropriate method to account for the extended outage periods at Boardman in 2006. We disagree with CUB that removing 2005 and 2006 entirely in predicting Boardman's 2008 forced outage rate is more consistent with the purpose of using a four-year rolling average than using the average of the most recent four years as modified to adjust for extreme circumstances. Although we agree that it is important to normalize predictions to exclude extreme circumstances such as the extended 2005-2006 Boardman outage, we also believe that one of the reasons to use a four-year rolling average is to adjust predictions to reflect a plant's most recent operating experience.[30] Excluding the two most recent years of a plant's performance is inconsistent with this purpose.

Extrinsic Value for Cold Snap Contract

Parties' Positions. ICNU argues that PGE's 2008 power cost forecast should be adjusted "to reflect the extrinsic value of the Company's 'cold snap' capacity contract."[31] In our decision in docket UE 180, we found that PGE's forecast of net variable power costs should include the costs of its capacity contracts, as well as an imputed extrinsic value for its Cold Snap and Super Peak contracts.[32] There was evidence in the record to support an imputed extrinsic value for the Super Peak contract, but no evidence for the Cold Snap contract.[33] ICNU argues that we should accept evidence on the extrinsic value of the Cold Snap contract in this proceeding and adjust PGE's power cost forecast accordingly.[34]

Staff agrees with ICNU that PGE's 2008 power cost forecast is flawed because "it fails to account for the extrinsic value of capacity resources."[35] Staff believes, however, that the Commission resolved this issue in docket UE 180 and that any further adjustment to account for the extrinsic value of the Cold Snap contract should be made after the resolution of the Commission's investigation into the feasibility of using stochastic modeling to predict PGE's power costs.[36]

PGE contends that the Commission should reject ICNU's proposal because it is inconsistent with Schedule 125, which limits the permissible updates in the APCU process. PGE also argues that the issue of the extrinsic value of the Cold Snap contract was already decided by this Commission in docket UE 180.

[29] CUB/100, Brown/7-8.
[30] Order No. 07-015 at 13.
[31] ICNU Op. Br. at 1.
[32] Order No. 07-015 at 13.
[33] *Id.*
[34] *See* ICNU Op. Br. at 4-6.
[35] Staff Op. Br. at 1.
[36] Staff/100, Galbraith/2-3.

Resolution. We agree with PGE and Staff that it is inappropriate to consider the issue of the extrinsic value of the Cold Snap contract in this proceeding. The APCU process is intended to be limited to the updates specified in Schedule 125. Schedule 125 allows updates to reflect new capacity contracts or changes to existing capacity contracts in the APCU process. ICNU's arguments regarding the extrinsic value of the Cold Snap contract do not fit in either category and are therefore inappropriate in this docket.[37] As Staff notes, this issue may be resolved in docket UM 1340, which is our investigation into the feasibility of using stochastic modeling in predicting PGE's power costs.[38] If that investigation does not resolve the issue, then ICNU will have the opportunity to raise it again in PGE's next general rate case.[39]

Permissibility of Other Updates

Parties' Positions. ICNU argues that PGE updated a "number of non-fuel costs" in its 2008 power cost forecast that are not eligible for update under Schedule 125.[40] ICNU specifically objects to PGE's update of Boardman Rail Car Mileage Tax, Boardman Coal Sampling, Boardman Rail Car Lease, Boardman Rail Car Maintenance, Boardman Trainset Storage Fee, and Boardman Coal Car Depreciation.[41] ICNU asserts that simply because costs are related to fuel or transportation does not mean that such costs are eligible for update as "contracts for the purchase or sale of power and fuel" or "transportation contracts."[42]

PGE states that it intended to include the costs specified by ICNU as fuel or transportation costs when it drafted Schedule 125, but agrees with ICNU that a literal interpretation of Schedule 125 would exclude these costs from those eligible for update. PGE therefore agreed to exclude approximately $173,000 in costs from its updated power cost forecast.

Resolution. Because PGE agreed to the adjustment requested by ICNU, we decline to address the substance of the parties' arguments and accept PGE's adjustment.

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[37] We disagree with Staff and PGE that the question of the appropriate imputed extrinsic value of the Cold Snap contract was conclusively decided in docket UE 180. Rather, in that docket we found that there was insufficient evidence to resolve the issue. But we also disagree with ICNU that this APCU docket is the appropriate forum to resolve the question.

[38] *Id*.

[39] Both PGE and ICNU argued about the specifics of ICNU's proposed imputed value for the Cold Snap contract. Because we find that it is inappropriate to address this issue in this docket, we do not discuss those arguments.

[40] ICNU/100, Falkenberg/10.

[41] *Id*. Although ICNU did not object to its inclusion, ICNU noted in a footnote that Colstrip "railcar lease expense" was updated in the APCU. We did not see such an update and believe ICNU was mistaken.

[42] ICNU/100, Falkenberg/10.

Revenues from the Sale of Ancillary Services

Parties' Positions. In docket UE 180, we reduced PGE's net variable power cost forecast by $1.43 million to account for revenues from PGE's sale of ancillary services.[43] Given the difficulty in forecasting these revenues, we stated that the difference in revenues should be incorporated in the calculation of the annual PCAM.[44] We did not specify whether the $1.43 million in revenues included in the net variable power cost forecast should be updated as part of the APCU process.

In calculating its 2008 power cost forecast, PGE included the $1.43 million in estimated revenues from the sale of ancillary services. PGE did not attempt to update this number.[45] Staff believes that $1.43 million is an appropriate estimate for PGE's 2008 forecast, but asks the Commission to clarify whether PGE should update the estimate of revenues from the sale of ancillary services as part of the APCU process in the future.[46] Staff argues that such an update is appropriate because PGE updates the costs associated with the sale of ancillary services in the APCU process, thus updating the revenues associated with these sales will prevent a mismatch of costs and benefits.[47] PGE responds that it does not update the costs associated with the sale of ancillary services as part of the APCU process and it is therefore inappropriate to require it to update the estimate of revenues from these sales.[48]

Resolution. We agree with PGE that neither the costs nor the revenues associated with the sale of ancillary services are eligible for update under the APCU tariff (Schedule 125). As discussed above, the tariff limits permissible updates to specific categories. The costs and revenues associated with the sale of net ancillary services do not fit within any of the categories of permissible updates set forth in the tariff. If Staff believes that it is appropriate to update these costs and revenues in PGE's APCU, then Staff should raise this issue in PGE's next general rate case.

[43] Order No. 07-015 at 16.
[44] *Id.*
[45] *See* PGE/100, Tooman-Tinker-Schue/13.
[46] *See* Staff/100, Galbraith/5.
[47] Staff Op. Br. at 3
[48] PGE Reply Br. at 3.

ORDER

IT IS ORDERED that:

1. Portland General Electric Company's Annual Power Cost Update is approved as modified to exclude approximately $173,000 in costs related to Boardman Rail Car Mileage Tax, Boardman Coal Sampling, Boardman Rail Car Lease, Boardman Rail Car Maintenance, Boardman Trainset Storage Fee, and Boardman Coal Car Depreciation.

2. Portland General Electric Company shall make the final Monet run on November 15, 2007, producing the final Annual Power Cost Update adjustment for 2008.

Made, entered, and effective OCT 17 2007.

Lee Beyer
Chairman

John Savage
Commissioner

COMMISSIONER BAUM WAS UNAVAILABLE FOR SIGNATURE

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

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 through 183.484.