ORDER NO. 07-451

ENTERED 10/16/07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1323

In the Matter of	)	
	)	
PORTLAND GENERAL ELECTRIC COMPANY	)	ORDER
	)	
Application for an Accounting Order regarding Wind Turbine Reservation Costs.	)	

DISPOSITION: APPLICATION APPROVED WITH CONDITION

On June 6, 2007, Portland General Electric Company (PGE) filed an application, with the Public Utility Commission of Oregon (Commission), for an accounting order to authorize the treatment of wind turbine reservation costs. A full description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A and incorporated by reference.

At its Public Meeting on October 9, 2007, the Commission adopted the recommendation contained in the Staff Report.

ORDER

IT IS ORDERED that Portland General Electric Company's request for an accounting order regarding the treatment of wind turbine reservation costs is approved, subject to the condition set forth in Appendix A.

Made, entered, and effective OCT 1 6 2007.

BY THE COMMISSION:

Becky L Beier

Becky L. Beier
Commission Secretary

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 183.480-183.484.

ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 9, 2007

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** June 6, 2007

DATE: September 12, 2007

TO: Public Utility Commission

FROM: Carla Owings

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1323) Request for an Accounting Order Regarding Treatment of Reservation Deposits.

STAFF RECOMMENDATION:

Staff recommends the Commission approve, in part, Portland General Electric's ("PGE" or "Company") request for an accounting order regarding the treatment of costs associated with reservation deposits, effective June 6, 2007, subject to the following condition:

1. The Commission should allow Portland General Electric to book its costs to FERC Account 107, Construction Work in Progress ("CWIP") where it will accrue interest through the Allowance for Funds used During Construction ("AFDC"[1]) not to exceed, for the period before construction begins, interest at the Company's authorized cost of capital (currently 8.29%).

DISCUSSION:

On June 6, 2007, PGE submitted a request for approval to classify costs associated with reservation deposits for Phases II and III of Biglow Canyon Wind Farm ("Biglow") as Construction Work In Progress.

PGE indicated in its most recent Integrated Resource Plan ("IRP") that adding further renewable resources will provide a hedge against volatile fuel prices and uncertain future emissions costs. Biglow Phase I, PGE's most recent wind farm project, is projected to come on-line in early January of 2008 and compares favorably with other renewable resource alternatives. With the implementation of Senate Bill 838 ("SB

[1] Often referred to as AFUDC, however, PGE uses the acronym AFDC.

838"), the State of Oregon will require that 25% of PGE's retail load will need to be served by renewable resources by the year 2025, with additional interim requirements by 2011, 2015, and 2020. Phases II and III of Biglow will contribute approximately 325 MW of power toward that mandate.

PGE indicates that the market for wind turbines is very tight due to strong demand for wind turbines larger than 2.0 MW. The Company will likely have to commit to making non-refundable reservation payments and other initial payments for the purchase of wind turbines to meet a commercial operation date not later than December 31, 2009 and December 31, 2010, for Phases II and III.

In its application, PGE requests approval to classify costs associated with reservation deposits as capital and book them into FERC Account 107, CWIP. AFDC would accrue on this CWIP from the time it is booked, to the time it is placed into service. Depreciation does not begin until the costs are booked into plant-in-service.

AFDC is a method to capitalize carrying charges incurred during the construction period. These carrying charges are a mix of debt interest and a reasonable equity return. In order to recognize the costs associated with carrying charges during the construction phase, the utility is allowed to accrue interest through AFDC.

Absent an order by the Commission approving this request, Generally Accepted Accounting Principles ("GAAP") would require that these costs be classified as a deposit. As such, a deposit is not considered a current expense and would not accrue any interest at the Company's current cost of capital, or at a rate commensurate with AFDC. However, because these reservation costs are being made far in advance of any construction activity, these costs do not qualify as a current expense, or as capital costs associated with CWIP. Although Staff agrees with PGE that these are reasonable and necessary costs related to the Biglow project and should be recoverable when the plant is recognized in rate base, Staff disagrees that AFDC should be allowed to accumulate on these deposits at a rate that exceeds its Authorized Rate of Return ("AROR") before construction begins.

Staff has reviewed the Company's estimate of interest accrual due to the application of AFDC. The actual calculation of AFDC is based on the Company's *current* capital structure and cost of debt rather than the capital structure and cost of debt authorized by the Commission in the Company's most recent rate proceeding. PGE's formula to calculate AFDC is compliant with the formula provided in the Code of Federal Regulations ("CFR").

Using the Company's *current* cost of debt and capital structure to calculate AFDC results in an AFDC that is likely to exceed PGE's AROR. Since PGE's actual capital structure is more than 56% equity, the possibility of AFDC accumulating more interest that the authorized cost of capital is highly likely. This would occur because ROE (10.10) is the highest of all rates used in the composite calculation for AFDC. For this reason, Staff recommends that the Company be allowed to book these reservation costs into CWIP, but that the Commission limit the interest rate that can accrue, before construction begins, to the Company's AROR. The Company would apply the lesser of AFDC or AROR to the balance of the accrual. Once construction begins, the Company will then be allowed to move these reservation dollars into CWIP that would allow for AFDC to be calculated pursuant to the guidelines outlined in the CFR, without consideration of a cap.

For this application, the difference between AROR and the FERC formula-AFDC may be de minimis. However, in the longer term, as PGE and other utilities look to account for the time value of money when they put forth deposits to hedge their positions in the quest for renewable resources, the amount of time for forward payments may well increase, as well as interest rates used to calculate cost of debt. Both influences will increase the outcome in the calculation of AFDC as well as the ultimate impact of the cost to ratepayers.

As noted above, Staff recognizes the need for the reservation payments and agrees that PGE should be allowed to be compensated for the time-value of money used to secure Biglow Canyon Phases II and III. Accordingly, Staff recommends that the Commission allow the Company to place these reservation costs into FERC Account 107, CWIP. PGE will then compare the AFDC accrual to what the authorized cost of capital accrual would be. To the extent that the AFDC accrual exceeds the cost of capital accrual, PGE will book the difference into FERC Account 254, Other Regulatory Liabilities for future refund to customers. FERC Account 254 will accrue interest at PGE's cost of capital (currently 8.29%).

The Company's AROR is what it would earn if these costs were already moved into ratebase. Therefore, Staff believes this treatment will provide a reasonable cap for the time value of money put forth by the Company for its costs associated with reservation deposits. PGE has advised Staff that it agrees with Staff's proposed treatment.

PROPOSED COMMISSION MOTION:

The Commission approve, in part, Portland General Electric's ("PGE" or "Company") request for an accounting order regarding the treatment of costs associated with reservation deposits, effective June 6, 2007, subject to the following condition:

1. The Commission should approve PGE's request to book its costs to FERC Account 107, Construction Work in Progress ("CWIP") where it will accrue interest through the Allowance for Funds used During Construction ("AFDC"[2]); however, for the period before construction begins, the Company should not apply a rate of interest that exceeds Company's authorized cost of capital (currently 8.29%).

PGE UM 1323 Wind Turbine Reservations

[2] Often referred to as AFUDC, however, PGE uses the acronym AFDC.