

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 215

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY

Request for a General Rate Revision.

ORDER

DISPOSITION: STIPULATION REGARDING ANNUAL POWER COST
UPDATE TARIFF ADOPTED

I. INTRODUCTION

On February 16, 2010, Portland General Electric Company (PGE) filed a request for a general rate revision. The request included PGE's annual revision of its net variable power supply costs under its Schedule 125. Schedule 125 establishes an Annual Update Tariff (AUT), which PGE must file by April 1 of each year and which becomes effective on January 1 of the following year. During a prehearing conference on March 8, 2010, the administrative law judge adopted separate procedural schedules for the general rate revision and the AUT filing.

The Public Utility Commission of Oregon (Commission) originally approved the AUT in Order No. 07-015. The AUT is designed to allow PGE to annually revise customer rates to reflect certain changes in its projected net variable power costs.¹ The updated power cost forecast is then used as the baseline for comparing actual net variable power costs when PGE applies the power cost adjustment mechanism set forth in its Annual Power Cost Variance tariff.² PGE uses its MONET model to develop its net variable power cost forecast.

In its initial filing, PGE forecasted total net variable power costs of \$747.2 million for 2011. PGE also proposed including several new costs in its annual AUT filings, including mercury control chemicals, broker fees, revolving credit facility fees, margin interest, and the costs of ammonia and lime for various plants. Finally, PGE proposed relaxing the freeze on variable operation and maintenance (O&M) costs between rate cases.

¹ Order No. 07-015 at 18 (Jan 12, 2007).

² *See id.* at 19-27. *See also* Portland General Electric Company, Schedule 126.

On June 4, 2010, the Citizens' Utility Board of Oregon (CUB) filed testimony objecting to the new costs that PGE proposed updating in its AUT. On June 21, 2010, Commission Staff and the Industrial Customers of Northwest Utilities (ICNU) filed opening testimony suggesting adjustments to PGE's proposal, recommending that the Commission reject PGE's proposed changes to the costs permitted to be updated in an AUT filing, and further recommending that the Commission reject PGE's proposal to relax the freeze on variable O&M costs between rate cases.

PGE, Staff, CUB, and ICNU (the Stipulating Parties) reached a settlement of all issues during a settlement conference on June 30, 2010. The Stipulating Parties filed a stipulation and joint testimony in support of the stipulation on July 29, 2010. The Stipulating Parties' request to admit the joint testimony into the record in this docket is granted.

II. THE STIPULATION

The stipulation purports to resolve all issues in the AUT portion of PGE's general rate case. If approved, the stipulation results in a decrease of approximately \$17.5 million in PGE's net variable power costs for 2011—from \$747.2 million to \$729.7 million based on PGE's September 2010 MONET update. The final amount of net variable power costs will be determined when PGE files its final MONET update in November 2010. Specific issues resolved in the stipulation are addressed below.

A. BPA Charges

In its initial filing, PGE assumed that in 2011 the Bonneville Power Administration (BPA) would invoke a tariff provision that allows BPA to increase wind integration rates from \$1.29/kW per month to \$1.58/kW per month. ICNU criticized this assumption in its opening testimony, arguing that the change is not known and measurable because: (1) there is no evidence that BPA will invoke the tariff provision to increase rates in 2011; and (2) even if BPA does invoke the provision in 2011, PGE assumed that BPA would increase rates to the maximum level permitted by tariff, even though BPA could theoretically set a rate between \$1.29/kW per month and \$1.58/kW per month. Staff also objected to PGE's approach. In the stipulation, PGE agreed to reduce the BPA wind integration rate from \$1.58/kW per month to the current BPA tariff rate of \$1.29/kW per month.

PGE also assumed in its initial filing that BPA would increase its wind integration rate in a general rate case expected to be filed in October 2011. PGE therefore escalated the wind integration rate in its MONET model. Staff and ICNU criticized this assumption as well, arguing that PGE's assumptions about what BPA may do in a rate case that has yet to be filed is far too speculative to be included in PGE's net variable power cost forecast. As part of the stipulation, PGE agreed to remove the escalation assumption from the MONET model.

Finally, PGE assumed that it would incur BPA wind imbalance charges during 2011. Staff and ICNU argued that PGE's assumptions were based on out-of-date data and overly simplistic modeling. ICNU proposed a 14 percent reduction in PGE's forecasted wind imbalance charges to reflect actual 2008-2009 data. In the stipulation, the Stipulating Parties

resolved this issue by agreeing that the forecast used in PGE's April MONET run is appropriate to use in this docket, but PGE agreed to work with the parties to refine the modeling methodology before PGE's next AUT filing.

These adjustments reduce PGE's net variable power forecast by approximately \$1.62 million.

B. Reclassification of Costs

In its initial AUT filing, PGE proposed including new categories of costs in its future AUT filings. These costs included mercury control chemical costs at PGE's Boardman generating plant, ammonia costs at PGE's Port Westward and Coyote Springs plants, lime costs at the Colstrip plant, broker fees, revolving credit facility fees, and margin interest. Staff, CUB, and ICNU argued that these costs are not appropriate to be included in PGE's annual forecast of net variable power costs.

In the stipulation, the Stipulating Parties agreed that PGE will remove the mercury control chemical costs from PGE's net variable power cost forecast and may include those costs as part of a future deferral filing. This adjustment reduces PGE's net variable power cost forecast by approximately \$1.87 million.

For all of the other costs, the Stipulating Parties agreed that PGE will remove those costs from the net variable power cost forecast and reclassify the costs as appropriate in the general rate revision portion of this docket. This reclassification of costs reduces the net variable power forecast by approximately \$5.36 million, but causes a corresponding increase in expenses in the general rate revision.

C. Boardman Fly Ash

As part of its initial filing, PGE proposed including the costs of fly ash disposal at its Boardman generating plant as a net variable power cost in future proceedings, based on the assumption that PGE would no longer be permitted to sell fly ash and will instead be required to dispose of it under Environmental Protection Agency (EPA) regulations. PGE did not, however, include these costs in its net variable power cost forecast. Because the possibility of EPA regulation was speculative, PGE agreed to remove the costs of fly ash disposal from the case in a partial stipulation in the general rate revision portion of this docket. The Stipulating Parties reiterate this agreement in the AUT stipulation, although this change has no effect on PGE's net variable power cost forecast.

D. Harriet Lake Flow Changes

In its initial filing, PGE included costs associated with work on the Harriet Lake base flow. During these proceedings, PGE changed the schedule for this work. Under the new schedule, costs will not be incurred during 2011. PGE therefore agreed to remove these costs from its net variable power cost forecast, which reduces the forecast by approximately \$0.8 million.

E. AMI Benefits

PGE did not include the projected energy savings associated with its Advanced Metering Infrastructure (AMI) project in its net variable power cost forecast. Staff objected, arguing that part of PGE's justification for incurring the costs of implementing advanced metering was the energy savings that would result. In the stipulation, PGE agreed to include energy savings associated with AMI in future net variable power cost forecasts in this docket.

F. UM 1355 Order

In docket UM 1355, the Commission is considering changes to the methodology used to calculate forced outage rates. These changes could affect PGE's net variable power cost forecast. The Stipulating Parties therefore agreed that, if the Commission issues a final order by October 22, 2010, then PGE will incorporate any changes in the forced outage rate methodology in its updated net variable power cost forecast. The Stipulating Parties agreed that PGE will have until its November 15, 2010, update to incorporate the changes. PGE also agreed to include an estimate of the impact of these changes, based on the methodology suggested by the Commission in previous orders in docket UM 1355, in PGE's September 20, 2010 MONET update.

G. WECC Operating Reserves

PGE's initial filing included an increase in net variable power costs based on the assumption that the Federal Energy Regulatory Commission (FERC) will approve a proposal by the Western Electricity Coordinating Council (WECC) to change its operating reserves requirement. Staff objected to the inclusion of these costs as too speculative because the FERC has not yet approved the WECC's proposal.

In the stipulation, the Stipulating Parties agree that PGE would remove the costs associated with the assumed change in the operating reserves requirement. This adjustment reduces PGE's net variable power cost forecast by approximately \$0.65 million.

H. Variable O&M

In its initial filing, PGE requested that the freeze on updating variable O&M costs between rate cases be relaxed, allowing PGE to update some of these costs in AUT filings. Staff and ICNU objected to this change. In the Stipulation, the Stipulating Parties agreed that PGE will not update variable O&M between rate cases. The Stipulating Parties also agreed that the estimated costs of transmission losses will be allowed to change dynamically with the dispatch modeling for the Colstrip and Port Westward plants.

I. Other Issues

Staff, ICNU, and CUB proposed other adjustments to the net variable power cost forecast included in PGE's initial filing. The Stipulating Parties settled these issues by agreeing to a reduction in PGE's net variable power cost forecast, although the parties did not assign a specific value to each individual adjustment. Specifically, the Stipulating Parties agree that PGE's forecast will be reduced by \$930,000 as settlement of all issues related to: (1) PGE's assumed escalation of BPA transmission rates; (2) PGE's estimated Boardman rail car maintenance costs; (3) PGE's Boardman plant capacity modeling; (4) PGE's assumptions regarding the hydro output impact of selective water withdrawal; and (5) the forced outage rate for the Port Westward generating plant.

III. CONCLUSION

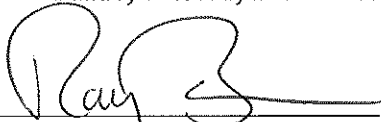
We find that the stipulation, attached as Appendix A, will result in rates that are fair, just, and reasonable. We therefore adopt the stipulation in its entirety.

IV. ORDER

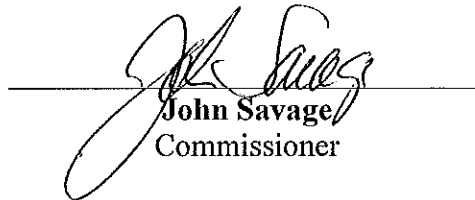
IT IS ORDERED THAT:

1. The stipulation filed on July 29, 2010, by Portland General Electric Company, Staff of the Public Utility Commission of Oregon, the Citizens' Utility Board of Oregon, and the Industrial Customers of Northwest Utilities is adopted.
2. Portland General Electric Company must file new tariffs consistent with this order. The tariffs must become effective on January 1, 2011.

Made, entered, and effective OCT 20 2010.

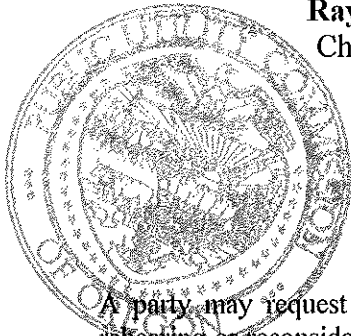


Ray Baum
Chairman



John Savage
Commissioner


Susan K. Ackerman JA
Commissioner



A party may request rehearing or reconsideration of this order under 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 the request must also be served on each party to the proceedings as provided in 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.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 215

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC COMPANY)	ANNUAL POWER COST UPDATE TARIFF STIPULATION
)	
Request for a General Rate Revision)	

This Stipulation (“Stipulation”) is between Portland General Electric Company (“PGE”), Staff of the Public Utility Commission of Oregon (“Staff”), the Citizens’ Utility Board of Oregon (“CUB”), and the Industrial Customers of Northwest Utilities (“ICNU”)(collectively, the “Stipulating Parties”).

On February 16, 2010, PGE filed this general rate case. On March 8, 2010, a prehearing conference was held. A procedural schedule was entered with separate schedules for the annual net variable power cost portion of the PGE’s request and the other issues relating to the general rate revision. The docket has proceeded pursuant to those schedules. PGE has responded to numerous data requests in this docket from Staff and intervenors. Three prior Stipulations, two regarding revenue requirement issues and one regarding rate spread and rate design issues, have been submitted to the Commission.

On June 21, 2010, the Stipulating Parties other than PGE filed their respective direct testimony regarding net variable power cost (“NVPC”) issues. On June 30, 2010, the Stipulating Parties participated in Settlement Conferences which resulted in a compromise settlement of the Stipulating Parties regarding net variable power cost issues described in detail below.

TERMS OF STIPULATION

I. This Stipulation is entered to settle all issues regarding net variable power costs and PGE's annual power cost update as filed in the April 2010 Monet run.

II. BPA Charges. The Stipulating Parties agree that for calculating NVPC PGE will reduce the BPA integration rate from \$1.58/kw-month to the current BPA tariff rate of \$1.29/kw-month. PGE will also remove the modeled escalation for the BPA wind integration rate. With respect to BPA imbalance charges, the parties agree that the resulting forecast used in the April Monet power cost run is appropriate for use in this docket, however PGE agrees to work with the other Stipulating Parties on refinements to the modeling forecast methodology for BPA imbalance charges, including the use of historical data, prior to PGE's next AUT docket. These changes will reduce forecast 2011 NVPC by about \$1.62 million.

III. Reclassification of Costs.

1. Consistent with the second partial stipulation entered into in this docket, Boardman mercury control chemical costs will be removed from NVPC calculations and will be included as part of the future deferral filing that will also include the capital costs of the planned Boardman emissions control upgrade. This change reduces NVPC by approximately \$1.87 million.
2. The costs included in PGE's NVPC filing for Port Westward ammonia, Coyote Springs ammonia, Colstrip lime, broker fees, revolving credit facility fees, and margin interest will all be removed from NVPC calculations and reclassified and included in O&M and A&G costs as appropriate.

3. With the exception of item 1 above, these reclassifications will reduce the forecast of 2011 NVPC by about \$5.36 million, and cause a corresponding increase in O&M and A&G expenses. These reclassified expenses have been included, with associated work papers, as part of the GRC in PGE's recent update to revenue requirement.

IV. Boardman fly ash. Pursuant to the first partial stipulation filed in this docket, costs for Boardman fly ash disposal have been removed from this case. This has no power cost effect because Boardman fly ash was not a component of PGE's NVPC forecast.

V. Harriet Lake flow changes. PGE's schedule for work affecting the Harriet Lake base flow requirement has changed such that there will be no impact on NVPC for 2011. Accordingly, the changes included in PGE's original filing will be removed. This reduces the forecast of 2011 NVPC by about \$0.8 million.

VI. AMI benefits. The Stipulating Parties agree that the energy benefits identified in PGE's testimony and in the first partial stipulation in this docket will be incorporated in future load forecasts in this docket.

VII. UM 1355 Order. The Stipulating Parties agree that PGE will include in NVPC calculations in this docket the impacts of any forced outage rate methodology changes ordered by the Commission in Docket UM 1355 if such an order is received by October 22, 2010. The Stipulating Parties further agree that PGE will have until its November 15, 2010, NVPC update to incorporate any such changes in its Monet NVPC forecast. In its September 20, 2010, NVPC update PGE will provide an estimate of the impact of adopting the forced outage rate methodology suggested by the Commission in its previous orders in UM 1355.

VIII. WECC Operating Reserves. PGE removed the impacts of the proposed WECC

operating reserve requirements in its April 1 NVPC update, and future updates in this docket will also have this impact removed. If the proposed operating reserve requirement change is approved before the September NVPC update in this docket, PGE may include the impact in the 2011 power cost update.

IX. Variable O&M. The Stipulating Parties agree that PGE will not update variable O&M between rate cases. The Stipulating Parties also agree that for the purpose of Colstrip and Port Westward dispatch modeling, the estimated costs due to transmission losses will be allowed to change dynamically with coal and gas cost updates.

X. Other Issues. The Stipulating Parties agree that the NVPC forecast in this docket for 2011 will be reduced by \$930,000 as settlement of all issues regarding the following five items: BPA transmission rate escalation, Boardman rail car maintenance, Boardman capacity modeling, Selective Water Withdrawal hydro output impact and the Port Westward forced outage rate. The Stipulating Parties have not collectively ascribed any particular portion of this settlement amount to any particular issue or subset of issues.

XI. All of the changes listed above to NVPC calculations, except any impacts resulting from an order in Docket UM 1355, will be included in PGE's next NVPC update filing scheduled for July 30, 2010.

XII. The Stipulating Parties recommend and request that the Commission approve the adjustments described above to PGE's 2011 power costs as appropriate and reasonable resolutions of the issues in this docket.

XIII. The Stipulating Parties agree that this Stipulation is in the public interest and will result in rates that are fair, just, and reasonable.

XIV. The Stipulating Parties agree that this Stipulation represents a compromise in the

positions of the Stipulating Parties. Without the written consent of all parties, evidence of conduct or statements, including but not limited to term sheets or other documents created solely for use in settlement conferences in this docket, are confidential and not admissible in the instant or any subsequent proceeding, unless independently discoverable or offered for other purposes allowed under ORS 40.190.

XV. If the Commission rejects all or any material part of this Stipulation, or adds any material condition to any final order which is not contemplated by this Stipulation, each Stipulating Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and OAR 860-014-0095 including the right to withdraw from the stipulation and to seek reconsideration of the Commission's order. Nothing in this paragraph provides any Stipulating Party the right to withdraw from this Stipulation as a result of the Commission's resolution of issues that this Stipulation does not resolve.


XVI. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR § 860-14-0085. The Stipulating Parties agree to support this Stipulation throughout this proceeding and in any appeal, provide witnesses to sponsor this Stipulation at the hearing (if necessary), and recommend that the Commission issue an order adopting the settlements contained herein. The Stipulating Parties also agree to cooperate in drafting and submitting written testimony required by OAR § 860-14-0085(4).

XVII. By entering into this Stipulation, no Stipulating Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other Stipulating Party in arriving at the terms of this Stipulation, other than those specifically identified in the Stipulation. Except as provided in this Stipulation, no Stipulating Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in

any other proceeding.

XVIII. This 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.

DATED this 29th day of July, 2010.



PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

CITIZENS' UTILITY BOARD
OF OREGON

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

any other proceeding.

XVIII. This 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.

DATED this ^{28th} day of July, 2010.

PORTLAND GENERAL ELECTRIC
COMPANY



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CITIZENS' UTILITY BOARD
OF OREGON

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

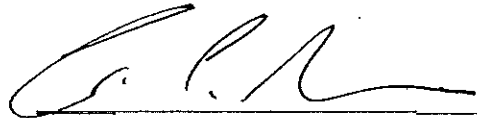
any other proceeding.

XVIII. This 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.

DATED this 28th day of July, 2010.

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CITIZENS' UTILITY BOARD
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XVIII. This 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.

DATED this day of July, 2010.

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INDUSTRIAL CUSTOMERS OF
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