

ORDER NO.

11 005

ENTERED

JAN 04 2011

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UE 220

In the Matter of

PORTLAND GENERAL ELECTRIC  
COMPANY

Renewable Resources Automatic  
Adjustment Clause (Schedule 122).

ORDER

**DISPOSITION: ADVICE NO. 10-25 ALLOWED**

On December 1, 2010, Portland General Electric Company (PGE) filed Advice No. 10-25 with the Public Utility Commission of Oregon (Commission), requesting to update Schedule 122 related to the amortization of the 2010 deferral amounts for the SunWay 3 and Biglow 3 renewable resource projects. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

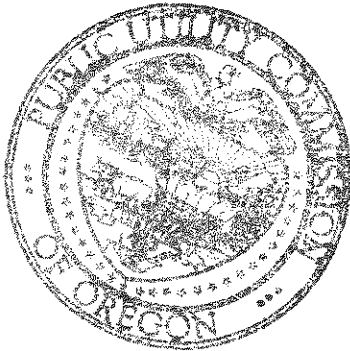
At its public meeting on December 28, 2010, the Commission adopted Staff's recommendation, and allowed the Company's Advice No. 10-25 to go into effect.

**ORDER**

IT IS ORDERED that Portland General Electric Company's request to update the revenue requirement associated with renewable resources on Schedule 122, Renewable Resources Automatic Adjustment Clause is approved, effective January 1, 2011.

Made, entered, and effective JAN 04 2011

BY THE COMMISSION:



*Becky L. Beier*

**Becky L. Beier**  
Commission Secretary

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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(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.

ITEM NO. CA11

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 28, 2010

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE January 1, 2011

DATE: December 20, 2010

TO: Public Utility Commission

FROM: Carla Bird *CB*THROUGH: *in* Lee Sparling, *MLF* Maury Galbraith and *JD* Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UE 220,  
Advice No. 10-25) Updates Schedule 122, Renewable Resources  
Automatic Adjustment Clause.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Portland General Electric's request to update revenue requirement associated with Renewable Resources on Schedule 122, Renewable Resources Automatic Adjustment Clause, effective January 1, 2011.

**DISCUSSION:**

On December 1, 2010, Portland General Electric (PGE or the Company) filed Advice no. 10-25 pursuant to Commission Order No. 10-391 in Docket UE 220 requesting to update Schedule 122 related to the amortization of the 2010 deferral amounts for the SunWay 3 and Biglow 3 renewable resource projects.

Background:

Commission Order No. 10-391 adopts a stipulated agreement and discusses the procedural matters between the Company, the Citizens' Utility Board of Oregon, the Industrial Customers of Northwest Utilities and Staff (collectively, the Parties). The Stipulation contemplated a related revenue requirement update of capital costs and all known costs for the SunWay 3 project as of December 1, 2010. Included in the Stipulation was an agreement to move the on-going revenue requirement (2011 and forward) related to both projects into the overall revenue requirement for PGE's then-current general rate proceeding, UE 215. All Parties agreed that the only amounts

PGE – UE 220 RAC  
December 20, 2010  
Page 2

related to the Schedule 122 update for 2011 would be the revenue requirement (or amortization) of the 2010 deferral amounts for each project, SunWay 3 and Biglow 3.

Biglow 3 Updates:

The 2010 capital costs related to Biglow 3 were forecast to be approximately \$428.4 million in the Company's original application. Due to lower than forecast capital costs,<sup>1</sup> the stipulated agreement was based upon capital costs of approximately \$387.4 million. However, actual costs closed to plant were approximately \$382.8 million resulting in a total decrease of approximately \$45.6 million to capital costs<sup>2</sup> from the time of the original application.

At the time of the Stipulation, PGE forecast the revenue requirement related to the 2010 deferral amount to be approximately \$13.2 million. The December 1, 2010 update provides a forecast for the revenue requirement related to the 2010 deferral to be approximately \$17.3 million.

**Biglow 3 updates:**

- 1) a decrease to capital costs of approximately \$4.6 million;
- 2) a decrease to O&M and depreciation of approximately \$0.8 million;
- 3) an increase to Net Variable Power Cost (NVPC) due to lower dispatch benefits;
- 4) an increase to Allowance for Funds used During Construction (AFDC) due to delayed close-to-books;
- 5) an increase to Utility Tax Expense due to Lower Production Tax Credits (PTC's); and
- 6) accumulated interest for 2010 deferral of costs.

The narrative below explains the reasons for the revenue requirement impact of each of the variations listed above:

- 1) The decrease to capital costs discussed at the beginning of the Biglow 3 updates results in a total decrease to capital costs of approximately \$4.6 million lowering revenue requirement by approximately \$2.8 million.

<sup>1</sup> See section "Changes related to Biglow 3," Item 1 for further information on changes to capital costs.

<sup>2</sup> The \$45.6 million reduction includes \$4.6 million lower than forecast capital costs included in the December update from the amounts agreed upon in the Stipulation adopted in Commission Order No.10-391.

PGE – UE 220 RAC  
December 20, 2010  
Page 3

- 2) As a result of lower capital costs, the Company reports a decrease to depreciation and other O&M costs resulting in a lower revenue requirement of approximately \$0.8 million.
- 3) Due to the lower than projected output of the Biglow 3 wind farm, the dispatch benefits decrease from approximately \$9.1 million to approximately \$5.7 million. This dispatch benefit serves as an offset to capital costs when modeled in a revenue requirement. The reduction of this benefit serves to increase revenue requirement by approximately \$3.4 million.
- 4) Staff reviewed the amount of AFDC accruing to rate base compared to the amounts that were estimated at the time of Stipulation. In April of 2010 (at the time of Stipulation) PGE estimated AFDC to be approximately \$19.3 million. The December update indicates AFDC to be approximately \$22.4 million; a difference of approximately \$3.1 million. Although AFDC is included in the total amount of capital costs which are reduced (as discussed in item 1) above, Staff questioned PGE as to why AFDC would be larger considering capital costs are much lower at the close-of-books than originally forecast. PGE explained that the original modeling of AFDC contemplated costs closing-to-books as early as May of 2010. Since construction of the first turbines was not completed by May of 2010, the balance in the Construction Work in Progress account (CWIP) continues to accumulate higher and higher amounts related to the construction. Once costs "close-to-book" those amounts are removed from the CWIP account, reducing the amount of AFDC that accrues. Staff has thoroughly reviewed PGE's calculation of AFDC and agrees that the delay of closing costs to book creates a larger accrual of AFDC resulting in an increase of approximately \$3.1 million.
- 5) Biglow 3 qualifies for production tax credits. These credits are based upon a dollar amount per kilowatt hour of production. The Stipulated Agreement forecasts production tax credits to be approximately \$5.1 million. The actual output of the plant results in production tax credits of approximately \$2.8 million. This difference of approximately \$2.3 million serves to increase revenue requirement by approximately the same amount of \$2.3 million.
- 6) Approximately \$280,000 of accumulated interest accruing on the deferred 2010 revenue requirement for Biglow Canyon 3 results in an increase to revenue requirement of approximately \$300,000.

The combined effects of the December update results in an increase to revenue requirement of approximately \$4.1 million.

**SunWay 3 Updates:**

PGE – UE 220 RAC  
December 20, 2010  
Page 4

There were minor changes to SunWay 3 related to a slightly lower rate base and slightly lower power cost impact. In the stipulated agreement adopted in Commission Order No.10-391, the Parties had agreed to a revenue requirement of approximately \$232,000. In the December update, PGE proposes a revenue requirement of approximately \$183,000. This amount includes the accrual of interest of approximately \$2,000 during the deferral period and another \$2,000 during the amortization period. PGE accrued interest at its currently authorized (8.284% in 2010) Cost of Capital from approximately June of 2010 through December of 2010. The forecast of interest during amortization is based upon the currently authorized Blended Treasury rate of 4.190 percent. PGE's estimated total amortization for the 2010 deferral amounts is estimated to be approximately \$187,000.

Of note in Staff's review of this filing was an amount modeled as an offset to rate base labeled as a "Developer's Fee". At the time of the Stipulated agreement, this fee was modeled to be approximately \$192,000. In the December update the Developer's fee was finalized at approximately \$327,000. As previously stated, this amount was used as an offset to rate base, which reduces the amount that PGE will earn a return of and on. In addition, PGE booked this amount as a deferred tax credit, which lowers the amount of deferred taxes that PGE's ratepayers have to pay (currently) which is also a ratepayer benefit.

In response to Staff's inquiry, PGE stated that these funds were received directly by PGE from an outside party and were not funded through any public funding source such as Clean Wind Funds or Energy Trust of Oregon Funds. For this reason, Staff believes that PGE has appropriately received the funds for its services and in turn has applied the amounts in a manner that benefits its ratepayers.

#### **Other Amortizations requested in this filing:**

PGE also proposes to include a residual balance related to Biglow Canyon Phase 2 of approximately \$4.6 million. This residual is a result of truing up the amounts related to NVPC for November of 2009 and December of 2009. In this case, the forecast output was less than forecast which resulted in a similar variance described in Item 1 above related to Biglow 3. Due to the lower than forecast output, the net dispatch benefits were approximately \$1.1 million less than forecast and the applicable production tax credits were approximately \$0.4 million less than forecast.

In addition, PGE had modeled the benefit of Business Energy Tax Credits (BETC's) into the revenue requirement for Biglow Phase 2. Due to temporary rules issued by the Oregon Department of Energy calling into question whether Biglow Canyon Phase 2 would now qualify for BETC credits, PGE withdrew its application for BETC's related to

PGE – UE 220 RAC  
December 20, 2010  
Page 5

this phase of the project resulting in an increase to revenue requirement of approximately \$2.2 million. Including the amounts related to interest accruals during the deferral and amortization period results in a total amount requested of approximately \$4.6 million.

**Total Impact:**

Biglow Canyon 3	\$17.3 million
SunWay 3	\$ 0.2 million
Residual of Biglow Canyon Phase 2	<u>\$ 4.6 million</u>
	\$22.1 million

In 2009, PGE's Schedule 122 was based upon an amortization of approximately \$28 million. Therefore, implementation of Schedule 122 as proposed would represent a slight decrease to current rates.

For residential customers on Schedule 7, the rate impact is a reduction to rates of approximately 1.0 percent.

Staff review:

Staff has reviewed PGE's request including the impacts of all updates and the modeling of the revenue requirement. Staff recommends the Commission approve PGE's request to implement Schedule 122 as proposed in PGE's supplemental filing of December 1, 2010.

**PROPOSED COMMISSION MOTION:**

The Commission approve Portland General Electric's request to update revenue requirement associated with renewable resources on Schedule 122, Renewable Resources Automatic Adjustment Clause, effective January 1, 2011.

PGE UE 220 Schedule 122 implementation