

ORDER NO. 11 204

ENTERED JUN 23 2011

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UP 274

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY

Application for Approval of the Sale of
Property Near the City of Sandy,
Clackamas County, Oregon, to Inner City
Properties.

ORDER

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On March 23, 2011, the Public Utility Commission of Oregon (Commission) received an application from Portland General Electric Company (PGE), requesting approval to sell 115.48 acres of land near the City of Sandy, Oregon. The application is filed under ORS 757.480 and OAR 860-027-0025. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

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 21, 2011, the Commission adopted Staff's recommendation to approve the sale of the 115.48 acres of land near the City of Sandy, Oregon with conditions.

ORDER

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

1. PGE shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to the transfer of properties.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
3. PGE shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
4. PGE will record the gain of \$592,168 as calculated below, from the sale in the Property Sale Balancing Account for subsequent refunds to customers with accrued interest calculated using the applicable Commission approved rate of return from the date of sale.
5. At the end of 2013, PGE will defer into the Property Sales Balancing Account for return to customers, \$1,523,470 plus interest related to the demolition of the Bull Run Powerhouse and related facilities, less any powerhouse and related facility demolition costs PGE has incurred and any recovery of decommissioning costs not collected in rates as a result of a general rate case. Accrued interest will be calculated using the applicable Commission approved rate of return from the closing date of sale.

6. The final journal entry recording the transaction will be submitted to the Commission with the appropriate semiannual report.

Made, entered, and effective JUN 23 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. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 21, 2011

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: June 1, 2011

TO: Public Utility Commission

FROM: Michael Dougherty *MD*

THROUGH: *LS* Lee Sparling and *MH* Marc Hellman *for*

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 274) Application of Portland General Electric Requesting Approval to Sell 115.48 acres of land near the City of Sandy, Oregon.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric's (PGE or Company) request to sell 115.48 acres of land near the City of Sandy, Clackamas County, Oregon, subject to the following conditions:

1. PGE shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to the transfer of properties.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
3. PGE shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
4. PGE will record the gain of \$592,168 as calculated below, from the sale in the Property Sale Balancing Account for subsequent refund to customers with accrued interest calculated using the applicable Commission approved rate of return from the date of sale.

UP 274
June 1, 2011
Page 2

5. At the end of 2013, PGE will defer into the Property Sales Balancing Account for return to customers, \$1,523,470 plus interest related to the demolition of the Bull Run Powerhouse and related facilities, less any powerhouse and related facility demolition costs PGE has incurred and any recovery of decommissioning costs not collected in rates as a result of a general rate case. Accrued interest will be calculated using the applicable Commission approved rate of return from the closing date of sale.
6. The final journal entry recording the transaction will be submitted to the Commission with the appropriate semiannual report.

DISCUSSION:

This application was filed on March 23, 2011, pursuant to ORS 757.480 and OAR 860-027-0025.

In the early 1900's, PGE purchased property in several parcels for the Bull Run Hydroelectric Project. However, in 2008 PGE decided not to renew the FERC license for the facility after determining that the costs associated with providing the necessary level of protection, mitigation, and enhancement for the project outweighed the economic benefit of generation. Thus, the property is no longer needed for utility purposes and it is not necessary or useful, except for the use and maintenance of transmission lines.

PGE owns 536.46 acres of land located near the City of Sandy, Oregon. The Company proposes to sell to Inner City 115.48 acres of the property located near the intersection of Ten Eyck and Bull Run Roads, which includes the Bull Run powerhouse, a former school facility, and adjacent acreage in Roslyn Lake (collectively, the "Property"). Inner City intends to purchase the Property as a state-of-the-art example of environmental sustainability that will be open to the general public.

Inner City has agreed to purchase the Property for the sum of \$875,657, which is the value of the timber located on the property, plus one dollar (\$1). Inner City will assume responsibility for possible environmental costs associated with the Property. In addition, PGE will retain all other rights over the existing property for use and maintenance of transmission lines and will not be required to remove the powerhouse and improvements from the Property, as outlined in the decommissioning agreement.

UP 274
June 1, 2011
Page 3

On December 15, 2006, PGE filed UP 237 seeking approval to transfer property associated with the Bull Run Hydroelectric Project (excluding the Roslyn Lake portion) to Western Rivers Conservancy ("Western Rivers"). A portion of the acres approved for transfer to Western Rivers is included in the proposed sale to Inner City. Western Rivers has been notified of the sale to Inner City and has agreed that PGE may sell the Property.

Issues

Staff investigated the following issues:

1. Scope and Terms of the Asset Purchase Agreement
2. Allocation of Gain
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

Scope and Terms of the Asset Purchase Agreement

There do not appear to be any unusual or restrictive terms to the agreement. An appraisal dated August 16, 2010, conducted by Real Property Consultants, gave the property a negative value of (\$647,814). While the appraisal indicates a value of \$875,656 for the timber on the property, it also indicates a negative value of (\$1,523,470) for decommissioning the powerhouse and improvements.

PGE has reached an agreement with Inner City to dispose of the Property for the price of \$875,657. As described in the Agreement of Purchase and Sale between PGE and Inner City, the purchase price is one dollar (\$1), plus the value of the timber located on the Property.

Allocation of Gain

PGE indicates in its filing that the sale will result in a net gain of \$592,168.¹ However, upon review, Staff believes the net gain that should be returned to Oregon customers is \$2,115,638. PGE and Staff's calculations are as follows:

Table 1 – Gain Calculation

	Per PGE Filing	Revised Per Staff
Selling Price	\$875,657	\$875,657
Book Value	-\$3,544	-\$3,544
Selling Expenses	-\$279,945	-\$279,945
Net Proceeds	\$592,168	\$592,168

¹ The initial application indicates a net gain of \$602,490. However, PGE updated its selling expenses through data requests (Staff Data Request No. 2). This reduced the net gain amount to \$592,168.

UP 274
June 1, 2011
Page 4

	Per PGE Filing	Revised Per Staff
Add Decommissioning Savings	\$0	\$1,523,470
	\$0	\$0
Net Gain to be returned	\$592,168	\$2,115,638

Staff made one adjustment which increased the net gain amount from \$592,168 to \$2,115,638.

Staff's adjustment reflects savings in decommissioning costs that may not incur. In Commission Order No. 01-123, PGE received approval for the recovery of investment and decommissioning costs for the Bull Run Hydroelectric Project. Decommissioning costs were originally estimated at \$16.6 million. However, after a series of updates, the total estimate was \$22.2 million. As of March 31, 2011, PGE has recovered \$17.5 million of decommissioning costs.

Of the \$22.2 million estimated decommissioning costs, \$1.523 million is allocated for the removal of the powerhouse and improvements that are situated on the land which is being sold to Inner City. As a result of the sale, PGE should be relieved from its obligation to remove such structures and improvements.² Because PGE should not incur this expense, Staff believes that \$1.523 million should be returned to customers. However, in the event PGE is required or deems it appropriate to demolish the Bull Run Powerhouse and related facilities, or any portion thereof, PGE shall be entitled to recover the associated costs and expenses.

Additionally, if PGE does not collect the full \$1.523 million due to any changes of rates resulting from a general rate case that occur prior to December 31, 2012, PGE will be able to reduce the amount returned to customers by the amount not collected from customers in rates. In light of these risks, PGE will hold the \$1.523 million until 2013, when it will be transferred to the Property Account with accrued/imputed interest calculated from the date of sale.

As stated above, PGE will recover \$22.2 million for decommissioning the Bull Run Hydroelectric Project, which includes the land being sold to Inner City. Staff believes that the additional costs of environmental remediation should offset the selling price of the Property.

The selling costs associated with the sale of the Bull Run property have not been included in the \$1.523 million that is currently being recovered for decommissioning the

² PGE in its last general rate case (UE 215), expected to demolish the power house either in 2011 or 2012, most likely beginning in 2011 and continuing into 2012.

UP 274
June 1, 2011
Page 5

powerhouse.³ The additional selling costs are for remediation of the soils, which is explained in the Work Plan (provided as an attachment in PGE's response to DR 002).⁴ Remediation of soil is a condition of the purchase agreement and would limit potential future liability and establish environmental baseline conditions to the property. This action was included as a selling expense because it is not included in or recovered through depreciation.

Table 2 – Decommissioning and Selling Cost Calculations

<u>Item</u>	Currently Included in Depreciation	Not Included in Depreciation
<i>Decommissioning</i>		
Demolition/Removal of the Powerhouse	\$444,790	
Additional for Demolition/Removal of Powerhouse	\$706,230	
Remediation of HTW at Powerhouse Facility Only	\$29,290	
Removal and Disposal of HTW Soil and Sediment at Powerhouse Only	\$154,660	
Removal and Disposal of HTW Soil and Sediment at Powerhouse Only	\$188,500	
Total Decommissioning	\$1,523,470	
<i>Selling Costs</i>		
Appraisals		\$20,848
Divestiture Removal Action		\$75,757
Voluntary Cleanup Actions		\$170,200
Remedial Actions		\$13,140
Total Selling		\$279,945

PGE has reviewed Staff's analysis and does not oppose the recommendations.

Public Interest Compliance

The proposed transaction conforms to the no harm standard used by the Commission because the Property is surplus to the Company's needs and is not necessary to serve its customers. The sale will result in approximately \$2,115,638 along with accrued interest, being returned to customers. In addition, as a result of the sale, PGE will no

³ See "Decommissioning" section of the table for detail of costs.

⁴ See the "Selling Costs" section in the table for detail of costs.

UP 274
June 1, 2011
Page 6

longer be required to remove the powerhouse improvements; Inner City will assume responsibility for possible environmental costs associated with the Property; and PGE will retain all other rights over the existing property for use and maintenance of transmission lines.

Records Availability, Audit Provisions, and Reporting Requirements

Order Conditions Numbers 1 and 6, listed above in the Staff recommendations, afford the necessary Commission examination of PGE's books and records concerning the sale.

PROPOSED COMMISSION MOTION:

The requested sale of 115.48 acres of land near the intersection of Ten Eyck and Bull Run Roads near the City of Sandy, Oregon, be approved subject to the six conditions stated in Staff's recommendations in this memorandum.

UP 274 pmm - 5.31.11