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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1008/UM 1009

In the Matter of the Application of the Staff of the)	
Public Utility Commission of Oregon for Deferral)	ORDER
of a Portion of PORTLAND GENERAL)	
ELECTRIC COMPANY's Excess Net Variable)	
Power Costs. (UM 1008))	
)	
In the Matter of the Application of PORTLAND)	
GENERAL ELECTRIC COMPANY for an)	
Order Approving Deferral of Changes in Costs.)	
(UM 1009))	

**DISPOSITION: DOCKETS CONSOLIDATED;
AUTHORIZATION FOR DEFERRAL APPROVED**

On December 28, 2000, Staff of the Public Utility Commission of Oregon (Staff) filed an application for deferral of a portion of Portland General Electric Company's excess net variable power costs from January 1, 2001, through September 30, 2001; this application was docketed as UM 1008. On January 11, 2001, Portland General Electric Company (PGE) filed a similar application to defer all changes in its net variable power costs from January 11, 2001 through December 31, 2001; this application was docketed as UM 1009. Both applications were filed pursuant to ORS 757.259 and OAR 860-027-0300.

A description of the applications and their procedural history is contained in the Staff Report attached as Appendix A and incorporated by reference. Following a series of settlement conferences involving PGE, Staff, Citizens' Utility Board of Oregon (CUB), Fred Meyer Stores, and the Industrial Customers of Northwest Utilities (ICNU), the parties reached several agreements. (Stipulation included in Appendix A.)

At its Public Meeting on February 20, 2001, the Commission adopted Staff's recommendations to: (1) Consolidate the dockets as provided by OAR 860-014-0025; and (2) Authorize deferral of 100% of all changes in PGE's net variable costs for the period January 1, 2001, through September 30, 2001, from the baseline net variable power costs of \$176 million.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. Portland General Electric Company is a public utility subject to the Commission's jurisdiction.

Applicable Law

OAR 860-014-0085(4) requires that a stipulation be supported by an explanatory brief or written testimony. The parties requested that the Commission allow the staff report to serve as explanation in support of the stipulation. The Commission considered and granted that request at its public meeting on February 20, 2001.

ORDER

IT IS ORDERED that:

1. Dockets UM 1008 and UM 1009 are consolidated as provided by OAR 860-014-0025.
2. Authorization for deferral of 100% of all changes in PGE's net variable costs for the period January 1, 2001, through September 30, 2001, from the baseline net variable power costs of \$176 million is approved. *This approval is for accounting purposes only.*

Made, entered and effective _____.

BY THE COMMISSION:

Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. 1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 20, 2001**

REGULAR AGENDA X **CONSENT AGENDA** _____ **EFFECTIVE DATE** January 1, 2001
DATE: February 13, 2001
TO: Bill Warren through Lee Sparling
FROM: Ed Busch and Stefan Brown
SUBJECT: UM 1008 and 1009: Authorization for Portland General Electric to defer changes in net variable power costs

SUMMARY RECOMMENDATION:

We recommend the Commission take the following actions with respect to dockets UM 1008 and 1009: (1) Consolidate the dockets as provided by OAR 860-014-0025; and (2) Authorize deferral of 100% of all changes in PGE's net variable costs for the period January 1, 2001, through September 30, 2001, from the Baseline net variable power costs of \$176 million. This approval is for accounting purposes only.

DISCUSSION:

On December 28, 2000, Staff filed an application for deferral of a portion of PGE's excess net variable power costs from January 1, 2001, through September 30, 2001. This application was docketed as UM 1008. On January 11, 2001, PGE filed a similar application to defer all changes in its net variable power costs from January 11, 2001 through December 31, 2001. This application was docketed as UM 1009. Both applications were filed pursuant to ORS 757.259 and OAR 860-027-0300.

Following a series of settlement conferences involving PGE, Staff, Citizens' Utility Board of Oregon (CUB), Fred Meyer Stores, and the Industrial Customers of Northwest Utilities, the parties reached several agreements. (See attached stipulation) Under the terms of the stipulation, the parties are requesting Commission approval of the deferral of changes in PGE's net variable power costs beginning January 1, 2001, and will recommend specific ratemaking treatment to the Commission in a future ratemaking proceeding. The parties also are requesting the Commission's order consolidate the two dockets.

Deferral of Changes in Net Variable Power Costs

Under the terms of the Stipulation, the parties are requesting the Commission allow deferral of 100% of all changes in PGE's net variable costs for the period January 1, 2001, through September 30, 2001 (the Deferral Period) from the Baseline net variable power costs of \$176 million. As discussed below, the parties will recommend only a specified portion of the deferred costs or revenues be included in customer rates. Net variable power costs are PGE's actual variable power costs (excluding capital and fixed operation and maintenance expenses) incurred to serve its retail load for the Deferral Period. For purposes of calculating the deferral, net variable power costs will be adjusted for several items:

1. Customers will be held harmless for the effects of service to Boise Cascade on net variable power costs, per Order No. 00-491.
2. The Regional Power Act Exchange Credit, PGE Schedule 102.
3. Monthly FASB 133 mark-to-market activity shall be excluded because it does not reflect realized costs.
4. PGE shall include as a cost (or exclude from revenue) all losses that PGE incurs, or is reasonably expected to incur, as a result of any non-retail customer failing to pay PGE for the sale of power during the Deferral period.
5. PGE shall include lost revenues resulting from the operation of the Electricity Exchange program (PGE Rate Schedule 86) and the operation of any Commission-approved residential and/or commercial energy reduction reward program (as long as the program achieves the threshold level required for payout or credit to customers). Lost revenues shall not be included if the actual net variable costs during the Deferral Period fall between \$120 million and \$232 million.
6. The results of any transaction arising from PGE's merchant trading business—PGE transactions relating to the acquisition and disposition of wholesale power, hedges, options and other financial instruments solely for its own account and at its own risk—shall be excluded from the calculation of net variable power costs.

Deferral of changes in PGE's net variable power costs is appropriate because it will minimize the frequency of rate changes, consistent with ORS 757.259(2)(e). PGE will record the deferral as a regulatory asset in FERC Account 182.3 (if actual net variable power costs exceed the Baseline) or regulatory liability in FERC account 254 (if actual net variable power costs are less than the Baseline).

Amount to be Recovered or Refunded

The Commission is not being asked at this time to make a ratemaking decision with respect to the deferral of PGE's changes in net variable power costs. However, the parties to the stipulation agreed to support the 100% deferral because all parties agree to recommend the Commission allow only a specified portion of the deferral to be recovered or refunded in future customer rates. In particular, Staff believes that Commission practice has been to use the same formula for calculating the deferral as for calculating the potential amount to be amortized in rates (Amortization Amount). In this case, PGE had concerns with that approach. Staff and other parties agreed to a calculation of deferrals that is different (larger) than the

Amortization Amount, because PGE stipulated that it would file tariffs to recover no more or no less than the Amortization Amount, unless otherwise ordered by the Commission.

In a future rate proceeding, the parties to the stipulation will support recovery or refund of the Amortization Amount calculated according to the following formula:

<u>Variance from Baseline Net Variable Power Costs of \$176 million for the Deferral Period</u>	<u>Amortization Amount</u>
Deadband of \$35 million above or below the Baseline (equivalent to approximately 250 basis points return on equity)	None.
Between \$35 million and \$56 million above or below the Baseline (equivalent to between approximately 250 and 400 basis points return on equity)	50 percent of the variance between \$35 million and \$56 million exceeding (less than) the Baseline shall be charged (credited) to customers.
Greater than \$56 million above or below the Baseline (equivalent to approximately 400 basis points return on equity)	90 percent of the variance above \$56 million exceeding (less than) the Baseline shall be charged (credited) to customers

Interest will accrue on the Amortization Amount at PGE's last approved Cost of Capital until the amount has been fully recovered from or refunded to customers.

Staff believes the width of the dead band (equivalent to 250 basis points return on equity) and sharing between customers and the company is reasonable for several reasons. First, utilities typically bear the risk for cost changes in normal operating expenses between rate cases. The potential magnitude of power cost changes is the result of a highly volatile wholesale market, which justifies not only deferral of a portion of the variance but also a sharing between customers and the company (until a subsequent general rate change) in such extraordinary circumstances. Second, the Amortization Amount will be calculated based on PGE's actual variable power costs. This means that weather risk normally borne by the utility is shifted to customers. For example, if weather is substantially colder than normal, a portion of the related power cost increase may be passed through to customers. Finally, this mechanism aligns the interest of the parties, because it provides PGE with an ongoing incentive to minimize its power costs.

Although the Commission must conduct an earnings review before allowing any of the deferral in rates, the parties agree to support the Amortization Amount irrespective of the results of the earnings review. Staff believes that the effect of the dead band and sharing makes it highly unlikely that PGE would be either

over-earning (in the case of deferred charges) or under-earning (in the case of deferred credits) during the Deferral Period.

Legal Requirements

OAR 860-014-0085(4) requires that a stipulation be supported by an explanatory brief or written testimony. The parties request that the Commission allow this staff report to serve as explanation in support of the stipulation.

Staff has provided a copy of this staff report, with attachments, to the service list in Dockets UE 117 (the most recent proceeding dealing with PGE's power cost issue with an established service list) and UE 115 (the company's current general rate case). These parties were provided a copy of the applications in UM 1008 and UM 1009. OAR 860-014-085(5) allows any party 20 days, or another time period set by the Commission or ALJ, for objections and request for hearing related to a stipulation. All parties were provided an opportunity to comment on the original applications. Moreover, all the parties that have participated in these dockets have signed, or indicated a willingness to sign, the stipulation. (CUB has indicated it will sign the stipulation if PGE accelerates its energy efficiency activities.) For these reasons, the Parties to the stipulation request the Commission waive the additional notice period and approve the deferred accounting at this public meeting.

STAFF RECOMMENDATION:

We recommend the Commission take the following actions with respect to dockets UM 1008 and 1009:

1. Consolidate the dockets as provided by OAR 860-014-0025.
2. Authorize deferral of 100% of all changes in PGE's net variable costs for the period January 1, 2001, through September 30, 2001, from the Baseline net variable power costs of \$176 million. This approval is for accounting purposes only.

Attachments

amount of changes in net variable power costs that are subject to an earnings review by the Commission and that must be amortized in rates after September 30, 2001.

The Parties agree to and request that the Commission adopt orders in these dockets as follows:

1. Dockets UM 1008 and UM 1009 shall be consolidated.
2. The Commission shall allow deferral of 100% of all changes in PGE's net variable power costs during the Deferral Period from the Baseline net variable power costs of \$176 million described in Section 4 below. Even though the parties agree that 100% of all changes in net variable power costs from the Baseline shall be deferred, the parties also agree that the only deferred changes that can be amortized in rates are those changes qualifying for amortization under the methodology described in Section 4 below.
3. For the purposes of this Stipulation, PGE's net variable power costs are the actual variable power costs (excluding capital and fixed operation and maintenance expenses) incurred by PGE to serve its retail load for the Deferral Period. For purposes of calculating the deferral, net variable power costs will be adjusted for the following items:
 - 3.1. Customers will be held harmless from the effects of service to Boise Cascade on net variable power costs through September 2001, per Order No. 00-491. An example of this adjustment is attached to this Stipulation.
 - 3.2. The Regional Power Act Exchange Credit, PGE Schedule 102.
 - 3.3. Monthly FASB 133 mark-to-market activity shall be excluded because it does not reflect realized costs.

3.4 PGE shall include as a cost (or exclude from revenue) all losses that PGE incurs, or is reasonably expected to incur, as a result of the failure of any party, other than a retail customer of PGE, to pay PGE any amount due from the sale of power during the Deferral Period that was generated by PGE or acquired by PGE to serve retail load. The Commission shall defer beyond September 30, 2001 the amount of any such losses that PGE is unable to demonstrate are reasonably certain to occur and shall allow PGE to amortize such losses into rates when the losses are finally determined, to the extent that such losses would have been recoverable by PGE as a charge to customers or as a reduction in calculating any credit to customers under the methodology described in Section 4 below.

3.5 To the extent permitted in this subsection 3.5, the Commission shall allow as a cost to PGE lost revenues resulting from (1) the operation of the Electricity Exchange program (PGE Rate Schedule 86) and (2) the operation of any Commission approved month-to-month residential and/or commercial energy reduction reward program, (except that PGE shall not include lost revenues if the energy reduction reward program does not achieve the threshold level required for payout or credit to customers.) If the final net variable power costs to be used for determining the Amortization Amount falls between \$120 million and \$232 million, the lost revenues described above shall be removed from the final net variable power costs used to determine the Amortization Amount. If removing lost revenues causes net variable power costs to drop below \$120 million, then only the amount of lost revenues needed to reach \$120 million shall be removed.

- 3.6 The results of any transaction arising from PGE's merchant trading business shall be excluded from the calculation of net variable power costs. PGE's merchant trading business consists of all transactions by PGE in the wholesale power market relating to the acquisition and disposition of power or the acquisition and disposition of hedges, options and other financial instruments solely for its own account and at its own risk. PGE shall separately account for its merchant trading business in a manner that will allow the Commission to audit transactions undertaken by PGE to serve its retail load, on the one hand, and transactions undertaken for its merchant trading business, on the other hand.
- 3.7 PGE shall record the deferral as a regulatory asset in FERC Account 182.3 or regulatory liability in FERC account 254. Without an authorized deferral, these items would be recorded primarily in FERC Account 555, Purchased Power; Account 565, Transmission; Account 447, Sales for Resale; and Accounts 501 and 547, Fuel.
4. PGE shall make a filing to amortize changes in PGE's net variable power costs deferred under Section 2 above. The Parties shall recommend that the Commission allow amortization in rates after September 30, 2001, or before September 30, 2001 if approved by the Commission, that portion of the deferred changes that is produced by the following methodology (Amortization Amount):
- (a) The Baseline net variable power costs for the Deferral Period shall be \$176 million (the Baseline).
 - (b) There shall be a deadband in net variable power costs of \$35 million above or below the Baseline that will not result in any increase or decrease in customer rates.

(c) Deferred changes in net variable power costs that are greater than or less than the deadband established in 4(b) above by not more than \$21 million shall be charged (in the case of net variable power costs in excess of the Baseline) or credited (in the case of net variable power costs that are less than the Baseline) 50 percent to customers and 50 percent to PGE.

(d) Deferred changes in net variable power costs that are greater than or less than the Baseline by more than \$56 million shall be charged (in the case of net variable power costs in excess of the Baseline) or credited (in the case of net variable power costs that are less than the Baseline) 90 percent to customers and 10 percent to PGE.

(e) Interest will accrue monthly at PGE's last approved Cost of Capital on the unamortized portion of the Amortization Amount, beginning at the end of the Deferral Period. In addition, there shall be added to the Amortization Amount an amount of interest equal to the product obtained by multiplying one-half of the Amortization Amount by an interest rate equal to 9 months of PGE's last approved Cost of Capital.

5. The Parties agree that the methodology described in Section 4 above fairly balances the interests of customers and PGE with respect to the effect that the Amortization Amount will have upon the earnings of PGE during the Deferral Period. Accordingly, the Parties request that the Commission allow the Amortization Amount in rates notwithstanding the results of any earnings review that the Commission may be required to conduct under ORS 757.259. In any such review, the Parties shall support full recovery or refund of the Amortization Amount without any adjustment, except those adjustments specifically allowed in this Stipulation.

6. The Parties agree to support before the Commission the following methods to allocate any Amortization Amount to rate schedules and to develop applicable charges or credits. Such method shall also be used if an automatic adjustment mechanism as described in paragraph 7 is adopted.

(a) Fifty percent of any Amortization Amount shall be allocated to each rate schedule on an equal cents per kWh basis utilizing PGE's forecast of 2001 kWh sales by rate schedule contained in its UE-117 filing.

(b) Fifty percent of any Amortization Amount shall be allocated to each rate schedule on an equal \$ per kW basis utilizing PGE's forecast of 2001 monthly system peak contribution by rate schedule contained in its UE-117 filing.

(c) Mirror schedules (e.g. Schedules 31 and 32) shall be combined when allocating the Amortization Amount.

(d) If a schedule has separate delivery voltage options (e.g. secondary, primary and transmission voltages), each option shall be treated as a separate schedule.

(e) If a schedule has separate demand levels, the demand levels shall be combined except that Demand Level I of Schedules 31/32 shall be treated as a separate schedule.

(f) Once the Amortization Amount is allocated to a schedule, a per kWh adjustment rate will be determined for that schedule to be applied to customer bills through an adjustment schedule.

7. The Parties agree to continue to negotiate in good faith to agree upon an automatic adjustment mechanism to be used during the Deferral Period to allow PGE to collect

from customers or refund to customers a portion of the forecasted changes in its net variable power costs during the Deferral Period to reduce the amount of the Amortization Amount that must be amortized in rates after September 30, 2001.

8. If PGE implements new base rates effective before September 30, 2001, as a result of a Commission order in docket UE 115, then the Commission may adjust the deferral and the Amortization Amount contemplated by this Stipulation to give effect to the intentions of the parties.
9. Staff believes Commission practice and statutory authority support calculating the amount to be deferred and the Amortization Amount using the same formula, dead bands and sharing mechanism. PGE has concerns with that approach with respect to the deferral that is the subject of this Stipulation. PGE believes that its concerns are most efficiently resolved outside of these dockets. To accommodate resolving PGE's concerns later, Staff and other Parties have agreed to the deferral of changes in PGE's net variable power costs according to Section 2 above.
10. If the Commission authorizes the deferral of changes in PGE's net variable power costs contemplated by this Stipulation, the Parties agree to support recovery or refund of the Amortization Amount in any proceeding to amortize the deferred changes. Notwithstanding any other provision of this Stipulation, PGE agrees that in no event will it file tariffs designed to recover or refund an amount of the deferred changes in PGE's net variable power costs that is different from the Amortization Amount, unless ordered to do so by the Commission.

11. The Parties agree to support this Stipulation before the Commission and before any court in which this Stipulation may be considered. If the Commission rejects all or any material part of this Stipulation, or adds elements to any final order which are not contemplated by this Stipulation, each Party reserves the right to withdraw from this Stipulation upon written notice to the Commission and the other Parties within five (5) business days of service of the final order rejecting or changing this Stipulation.
12. The Parties shall file this Stipulation with the Commission.
13. 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 only one agreement.
14. This Stipulation and any Commission order implementing the terms of this Stipulation shall not prejudice nor affect the rights of any Party with respect to PGE's net variable power costs for the period beginning October 1, 2001. This Stipulation represents a settlement and compromise of the positions of the parties with respect to the matters contemplated by this Stipulation. Accordingly, this Stipulation may not be cited or used as precedent by any party or any person in any proceeding, except for those proceedings implementing the terms of this Stipulation.

DATED THIS ____ DAY OF MARCH, 2001.

PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION

By: _____

By: _____

FRED MEYER STORES

INDUSTRIAL CUSTOMERS OF THE
NORTHWEST UTILITIES

By: _____

By: _____

By: _____

By: _____

By: _____

By: _____