ENTERED JUN 15 2001

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 125

In the Matter of the Contract Filed by	)	
PORTLAND GENERAL ELECTRIC for	)	ORDER
Steam Service.	)	
Advice No. 2001-S1	)	

DISPOSITION: CONTRACT ALLOWED; WAIVER GRANTED

On March 28, 2001, PORTLAND GENERAL ELECTRIC filed a contract in Advice No. 2001-S1 to be effective with service on or after June 1, 2001. On May 17, 2001, the company requested that the contract become effective with the first meter reading on and after June 16, 2001. On June 6 and June 7, 2001, the company filed replacement contracts, along with an Application to Waive Statutory Notice. The terms of the proposed contract are set forth in the Staff Report dated June 5, 2001, attached as the Appendix to this order.

At its June 15, 2001, public meeting, the Public Utility Commission of Oregon allowed the contract to go into effect. Pursuant to OAR 860-022-0032, the Commission finds that the contract shall be effective with the first meter reading on or after June 16, 2001.

IT IS ORDERED that Advice No. 2001-S1 filed by Portland General Electric, as amended on June 6 and June 7, 2001, is allowed with less than statutory notice effective with the first meter reading on or after June 16, 2001.

Made, entered, and effective ________________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 15, 2001

REGULAR AGENDA X CONSENT AGENDA _ EFFECTIVE DATE June 16, 2001

DATE: June 5, 2001

TO: Phil Nyegaard through Lee Sparling and Jack Breen III

FROM: Bill McNamee

SUBJECT: Portland General Electric Company (Advice 2001-S1)

SUMMARY RECOMMENDATION

I recommend that the Commission allow Portland General Electric (PGE) Company's Advice No. 2001-S1 to go into effect, with less than statutory notice, for meter readings on or after June 16, 2001.[1]

DISCUSSION

The OPUC received PGE's Advice No. 2001-S1 on March 28, 2001. The filing is a special contract under which PGE's Coyote Springs plant will supply steam to Columbia River Processing.

On May 15, 2001, PGE requested that, in order to resolve issues identified by Staff, Commission consideration of the filing be delayed from the May 22 to June 15, 2001, public meeting.

Columbia River Processing is a new cheese processing facility that is part of Tillamook County Creamery Association's plan to develop a substantial operation in Morrow County. Three new large dairies (*i.e., nearly 40,000 cows*) will supply the cheese processing facility. The overall operation promises substantial economic development benefits for Morrow County.

OVERVIEW

The gas-fired Coyote Springs plant began electric generation in November, 1995. The facility was constructed with additional equipment (*i.e., an auxiliary boiler*) that allows for steam sales to industrial users.[2] This additional equipment was intended to enhance

[1] This Staff recommendation requires that OAR 860-022-0032 be waived. This rule states that tariff changes are applicable with service rendered on or after the effective date. Therefore, Advice 2001-S1 has been docketed as UE 125. If the Commission accepts the Staff recommendation, a UE 125 order waiving OAR 860-022-0032 will need to be issued.

[2] By itself, the auxiliary boiler can supply up to 180,000 pounds of steam per hour. PGE can supply steam from either the auxiliary boiler or from steam created by the heat exhaust from plant's gas-fired turbine generators. The auxiliary boiler is used as a backup for when the plant is not operating or when all generating capacity is needed to serve load.

economic development at the Port of Morrow. The equipment was also part of the Energy Facility Siting Council's process to reduce overall air emissions in the local industrial area.[3]

Construction costs for Coyote Springs were allowed into rates in Docket UE 93 (*Order No. 95-1216, issued November 20, 1995*). When the UE 93 Order was issued, however, the plant had no steam sales contracts. Therefore, in order to hold PGE customers harmless for the added costs of the auxiliary boiler, the Company and Staff agreed to impute steam sale revenue equal to the revenue requirement of the additional equipment.[4]

In October, 1996, PGE executed a Coyote Springs steam sale contract with Logan International, a potato processor. This contract was not subject to OPUC review and approval because ORS 757.005(b)(G) exempts from Commission regulation a sale "furnishing heat to a single thermal end user from an electric generating facility, plant or equipment that is physically interconnected with the single thermal end user."

On May 16, 1997, PGE properly filed a second steam sale contract with United Distillers, a raw mint to mint oil processing facility. This filing (*Advice No. 97-1S*) was reviewed by Staff to ensure that: (1) The revenue generated from the steam sale was sufficient to cover relevant costs; (2) The contract was not discriminatory; and (3) PGE customers were held harmless. Staff determined that these criteria were met and the Commission allowed the contract to become effective on June 15, 1997.

Pricing in the two mentioned contracts differs to reflect the amount and timing of steam delivery. Logan International uses approximately 25,000 pounds of steam per hour for 75 to 85 percent of the year. United Distillers uses about 80,000 pounds of steam per hour, but usage occurs only during harvest season, which is less than 10 percent of the year.

CURRENT FILING

The contract with Columbia River Processing represents the third steam sale for the Coyote Springs plant. The contract provides for steam deliveries of up to 6000 pounds per hour on a continuous year around basis. In its filing, PGE requested that the pricing information in the contract be kept confidential. The contract has a five-year term.

On April 17, 2001, Staff met with PGE to discuss the contract's pricing structure. The contract has a cost-based price. This created a Staff concern because in order to supply steam to an industrial customer PGE may need to forego some electric production from the steam generator portion of its combined-cycle plant (*i.e., when steam is provided by the gas turbine exhaust, the electric output loss from the steam generator is roughly .1 MWh per 1000 pounds of delivered steam*). The steam sale contract's pricing calculation values estimated lost generation at Coyote's cost of production.

Staff's concern is that the opportunity cost (i.e., market value) of foregone power generation differs from its production cost (*e.g., in the past it has been lower and currently it is much*

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[3] EFSC Final Order, Thermal Plant Certificate for the Coyote Springs Cogeneration Project (September 16, 1994).

[4] In UE 93 the imputed steam sale revenue was $400,000. In the current UE 115 filing, PGE has proposed that its customers receive $307,000 for Coyote steam sales (*This UE 115 calculation uses the UE 93 methodology*).

higher). To address this concern, Staff recommended to PGE that it value the lost generation based on the market price estimates in its 2001 avoided cost study.

PGE agreed to discuss the Staff recommendation with Columbia River Processing. On May 14, 2001, PGE stated it will make a revised filing, along with a request for waiver of statutory notice.[5] The revised contract modifies the pricing structure to include Staff's recommended opportunity-cost pricing for years four and five. Pricing for the first three years remains cost-based. Pricing in the last two years is roughly 22 percent higher than what it would have been under the originally filed contract.

Furthermore, PGE indicates that the Logan International and United Distillers steam sale contracts, which currently have cost-based pricing, are up for renewal in late 2001 and 2002, respectively. PGE states that it will incorporate opportunity-cost pricing into the renewal of these contracts.[6]

In addition, PGE and Staff have agreed that in PGE's UE 115 filing and in its proposed Power Cost Adjustment, rather than continuing the UE 93 method of imputing an assumed value for steam sale revenues, the actual costs, revenues, and plant rating associated with the existing steam sale contracts will be included in the calculations.

REVIEW

Based upon my review of the steam sale pricing calculation, I conclude that the expected revenue will be sufficient to cover PGE's relevant production costs of providing steam to the Columbia River Processing plant. The compromise regarding cost-based versus opportunity-cost pricing moves the pricing structure to what Staff considers the more appropriate opportunity-cost method.

Given that the two existing steam sale contracts will upon renewal also incorporate opportunity-cost pricing, there should be no discrimination between similarly situated steam sale customers. Finally, recognizing the history of the UE 93 settlement and the above mentioned agreements regarding PGE's current UE 115 rate filing and proposed PCA, it is my conclusion that the Columbia River Processing steam sale contract is in the public interest.

STAFF RECOMMENDATION

I recommend that the Commission waive OAR 860-022-0032 and allow PGE Advice No. 2001-S1 to go into effect for meter readings on or after June 16, 2001, with less than statutory notice.

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[5] At the time this memo is written, the OPUC has not received the revised contract. Staff will report the filing's status at the June 15, 2001, public meeting.

[6] The opportunity cost pricing will begin with the Commission approved effective date of the renewed contract.