

ORDER NO. 04 573  
ENTERED OCT 05 2004

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UE 161

In the Matter of )  
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 )  
PORTLAND GENERAL ELECTRIC ) ORDER  
COMPANY )  
 )  
2005 Resource Valuation Mechanism. )

DISPOSITION: STIPULATION ADOPTED

**I. INTRODUCTION**

On April 1, 2004, Portland General Electric (PGE) filed an initial forecast of power supply costs for 2005 and supporting testimony with the Public Utility Commission of Oregon (Commission). PGE has filed a power supply cost update for the past three years as part of a yearly effort to forecast net variable power costs (NVPC) and energy revenues and set rates for the upcoming year.<sup>1</sup>

PGE's rates recoup power supply costs through an Energy Charge that is based on anticipated market prices and an annual resource valuation mechanism (RVM) adjustment that updates the valuation of PGE's energy resources. The Energy Charge is set at the projected market value of power for the following year. To forecast NVPC for the upcoming year, PGE uses a production cost model called Monet. Schedule 125 sets forth the RVM mechanisms to separately value long-term resources and short-term resources. In general, both adjustments are determined by calculating the difference between the projected cost and the projected market value of each resource. To determine the projected market value, PGE uses the same forward price curve as used to set the Energy Charge. The RVM adjustments also establish transition charges or credits for customers electing alternative energy supply options or direct access.

In its preliminary filing, PGE forecasted its 2005 power costs to be approximately \$492 million, a \$42 million increase from the 2004 RVM forecast in Docket UE 149. This forecast represented a 9.3 percent increase in total power costs. PGE

<sup>1</sup> This power supply cost update was authorized in Order No. 01-777, which approved a Power Cost Stipulation among Staff and certain parties participating in UE 115, PGE's last general rate case. *In the Matter of Portland General Electric*, Docket No. UE 115, Order No. 01-777 at Appendix D.

estimated rates for cost of service loads would increase by 1.6 percent. PGE indicates that over \$30 million of the total increase in power costs results from a higher cost of service load forecast for 2005 that is based on more optimistic forecasts of Oregon's economy in 2005. On a unit cost basis, PGE states that its power costs have increased 4.6 percent from \$24.40 MWh for 2004 to \$26.57 MWh for 2005.

PGE represents that its forecasted power costs for 2005 are based on a Monet model that is unchanged from the previous year's version except for enhancements that were specifically mandated by the Commission in Order No. 03-535.<sup>2</sup> PGE recommends that an additional enhancement be made, however, to the Monet model prior to final runs in this docket. PGE would modify the Monet model to recognize foreign exchange hedges. PGE purchases some natural gas contracts in Canadian dollars and considers it prudent to hedge these purchases in US dollars. PGE states it will not enter into such hedges, however, if the hedges are not included in Monet modeling. Consequently, PGE seeks to include Canadian dollar hedges in the 2005 RVM.

On June 30, 2004, Commission Staff (Staff), the Industrial Customers of Northwest Utilities (ICNU) and the Citizens' Utility Board (CUB) filed testimony raising several issues with PGE's filing. A primary concern that was universally raised by Staff, ICNU and CUB is the prudence of certain power purchase contracts. Staff, ICNU and CUB each recommended some level of disallowance of the above-market costs associated with particular contracts. Although the contracts at issue were different than the contracts at issue in PGE's 2003 RVM proceeding, Docket UE 139, the issues raised were similar to those raised that resulted in the Commission authorizing prudence disallowances of those contracts in Order No. 02-772. Similar to the complaints expressed in Docket UE 139, Staff, ICNU and CUB criticized PGE for acting outside of its routine practice to enter into certain power purchase contracts many months prior to delivery, at a time when the market was not liquid. PGE was also criticized for not providing sufficient information or analysis to establish the reasonableness of the contracts at issue.

ICNU also disputed PGE's load forecast as too optimistic. ICNU questioned the appropriateness of forecasting load for 2005 based on projections of a strong economic recovery in Oregon. Rather than using a load forecast based on economic projections, ICNU proposed using the most recent twelve months of actual data to derive a load forecast for subsequent Monet runs.

CUB challenged PGE's internal development of the forward price curves used in the final Monet runs. Indicating that no documentation was provided to support the internally developed forward price curves, CUB complained that the forward price curves cannot be independently verified. CUB also observed that PGE's final forward price curves escape any Commission review because they are developed after the Commission's final order in the RVM proceeding. CUB recommended that PGE use the average of three

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<sup>2</sup> Order No. 03-535 approved a stipulation in Docket UE 149 limiting Monet enhancements for the 2005 RVM to those related to Beaver and Coyote dispatch logic and hydro modeling, unless otherwise agreed by all of the parties to the stipulation.

independent, publicly available electricity price curves as its forward price curve in final Monet runs.

## II. STIPULATION

Pursuant to the procedural schedule adopted for this docket, numerous settlement discussions were held. Settlement resulted and PGE, Staff, ICNU and CUB (collectively the Stipulating Parties) executed a Stipulation resolving all issues related to PGE's 2005 RVM filing. On September 2, 2004, PGE filed the Stipulation with the Commission, along with an Explanatory brief and a motion to shorten the time for objections. The motion was granted by ruling of the Administrative Law Judge (ALJ), although parties were given an opportunity to request reinstatement of the full time for objection. Pursuant to another ALJ ruling requesting additional explanation of the Stipulation, PGE filed a Supplemental Joint Explanatory Brief on September 17, 2004.

The Stipulating Parties agree that the Stipulation is in the public interest and request that the Commission adopt it. The key features of the Stipulation include:

### 1. Timing of RVM Filings

On November 3, 2004, PGE will file a preliminary RVM filing (Preliminary RVM Filing) that locks down all data inputs except forward price curves. On November 10, 2004, PGE will make a final RVM filing (Final RVM Filing).

### 2. NVPC Adjustment

The Preliminary and Final RVM Filings will be adjusted to decrease NVPC by \$3.5 million. PGE will apply the \$3.5 million reduction to Part B of Schedule 125, which addresses the value of PGE's short-term resources. The Stipulating Parties state that this total reduction represents a reasonable compromise of all the issues in the docket, and results in end rates that are just and reasonable. This adjustment applies only to the 2005 RVM filing.

### 3. Workshops

Two series of informational workshops will be scheduled and held. One set of workshops will address the calculation and derivation of the forward price curves used by PGE in RVM proceedings. The Stipulating Parties indicate that greater understanding is needed of CUB's concerns regarding PGE's internal development of the forward price curves that are used for final RMV runs. The second set of workshops will address modeling the possible extrinsic value of PGE's thermal generating plants. The Stipulating Parties acknowledge several issues that need further discussion regarding the capability to accurately model the extrinsic value of PGE's thermal generating plants and the appropriateness of such an exercise.

#### 4. Hedging Canadian Gas Purchase Contracts

PGE will consider hedging costs when purchasing Canadian gas. Should PGE enter into a Canadian dollar denominated gas purchase contract, PGE will financially hedge the contract by purchasing forward price contracts in Canadian dollars as soon as reasonably practicable after the gas purchase transaction is executed. The hedging contracts will be included in the gas cost inputs in the Monet model used for subsequent 2005 RVM filings in this docket and in the 2006 RVM proceeding. There is a \$20 million limit in Canadian dollars on hedging contracts to be included in the Final RVM filing. The foundation for this cap is the amount of Canadian dollar denominated gas contracts that PGE has entered into in recent years and the amount of expected hedging activity in 2005 and 2006. Parties to the Stipulation will meet in early 2005 to consider an appropriate hedging cap for the 2006 RVM with \$20 million in Canadian dollars being the default cap.

### III. DISCUSSION

The Commission encourages parties to a proceeding to voluntarily resolve issues to the extent that settlement is in the public interest. The active participants in this docket entered into a Stipulation that resolves all outstanding issues. No party has filed an objection to the Stipulation.

The Commission has examined the Stipulation, the Explanatory supporting brief, the Supplemental Joint Explanatory Brief, and the pertinent record in the case. The Commission concludes that the Stipulation is an appropriate resolution of all the pending issues in this docket. The Commission adopts the Stipulation in its entirety without modification.

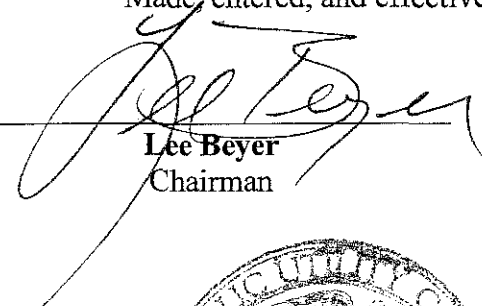
We estimate the \$3.5 million reduction to PGE's variable power cost estimate to be an 8.3 percent reduction to the original \$42 million dollar increase requested by PGE. The precise impact on customer rates will not be known until November 10, the date PGE will make its Final RVM filing for 2005.

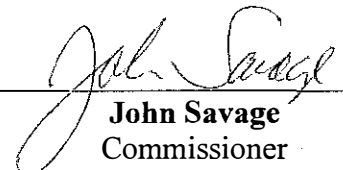
**ORDER**

IT IS ORDERED that:

1. The Stipulation, dated September 1, 2004 and executed by Portland General Electric, the Industrial Customers of Northwest Utilities, the Citizens' Utility Board and Commission Staff, is adopted.
2. Consistent with the Stipulation, Portland General Electric shall make a Preliminary RVM filing on November 3, 2004 and a Final RVM filing on November 10, 2004.

Made, entered, and effective OCT 05 2004

  
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**Lee Beyer**  
Chairman

  
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**John Savage**  
Commissioner

  
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**Ray Baum**  
Commissioner



A party may request rehearing or reconsideration of this order pursuant to 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 any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.