

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 172

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	ORDER
COMPANY)	
)	
2006 Resource Valuation Mechanism.)	

DISPOSITION: STIPULATION ADOPTED

I. INTRODUCTION

On March 29, 2005, Portland General Electric Company (PGE) filed its annual revision of its power supply costs under its Schedule 125. Schedule 125 was developed as part of a stipulation between PGE, customer groups, and the Commission Staff (Staff) concerning power costs during PGE’s last general rate case.¹ Schedule 125 establishes an annual resource valuation mechanism (RVM) adjustment, which PGE must file on November 15 of each year and which is effective January 1 of the following year.

The annual RVM adjustment helps PGE unbundle its costs into functional cost categories for recovery in rates. PGE recovers its power supply costs through an Energy Charge and RVM rates, which when summed, yield the cost of service rate. The Energy Charges are set at the projected market value of power for the following year. To forecast its net variable power costs, PGE uses a production cost model called Monet. The RVM adjustment rate (Schedule 125) consists of two parts: Part A for Long-Term Resources, and Part B for Short-Term Resources.²

Both of these adjustments, which may be a charge or a credit, are generally determined by the difference between the projected costs and the projected market value of each resource. To determine the projected market value, PGE utilizes the same forward curve used to set the Energy Charge described above. The RVM adjustments also establish transition charges or credits for those who choose alternative energy supply options or direct access.

¹ *In the Matter of Portland General Electric Company*, Docket No. UE 115, Order No. 01-777 at Appendix D.

² Long-Term Resources are defined as those with an initial term of longer than five years.

In its preliminary filing, PGE forecasted its 2006 power costs to be \$644 million. This amounts to a 32.4 percent increase or \$157 million more than the 2005 RVM forecast in UE 161. Based on this initial projection, PGE's rates increase by an overall average of about 3.4 percent.

In response to PGE's filing, the Industrial Customers of Northwest Utilities (ICNU), the Citizens' Utility Board of Oregon (CUB) and Staff raised disputes related to the types of updates and adjustments proposed by PGE. Staff, CUB, and ICNU, as well as PGE, filed testimony and exhibits addressing PGE's initial filing.

II. STIPULATION

Pursuant to the procedural schedule adopted for this docket, the parties held numerous settlement discussions. As a result of those discussions, PGE, Staff, ICNU, and CUB, submitted a stipulation on September 28, 2005, to resolve all issues related to PGE's 2006 RVM filing. The Stipulation, which is attached as Appendix A, and explanatory brief were entered into the record of this proceeding as evidence pursuant to OAR 860-014-0085(1). CUB filed additional stipulation testimony to address its dissatisfaction with the RVM process. PGE, ICNU, CUB, and Staff agree that the Stipulation is in the public interest and request that the Commission adopt it.

Each party raised different issues in the proceeding. Staff, CUB, and ICNU proposed adjustments related to a planned outage at the Sullivan hydroelectric plant and two capacity tolling contracts. CUB and ICNU also proposed an adjustment related to changes to certain model inputs regarding the capacity of some hydro plants. ICNU also proposed an adjustment regarding four specific wholesale power purchase contracts that PGE executed in 2001.

The parties agreed to a \$3.75 million disallowance to represent a reasonable financial settlement of all current issues, without assigning any portion of the settlement amount to specific issues or claims. The stipulated disallowance is a compromise among the proposed adjustments recommended by Staff, CUB, and ICNU, and the parties argue that it is within a "range of reasonableness" that has been approved by the Commission in the past. The parties contend that this reasonable adjustment will therefore produce rates that are just and reasonable.

CUB filed additional testimony to indicate its increasing frustration with an RVM process that grows broader each year. *See* CUB/200, Jenks/1. CUB raises the concern that, with each annual RVM process, PGE is seeking adjustments and modifying its MONET model to benefit shareholders. *See id.* at 2. This docket was not the forum to address these issues, CUB admits; however, a new rate case, anticipated to be filed with the Commission soon, should "either fix or discard the RVM." *Id.* at 3:5.

III. DISCUSSION

The Commission encourages parties to a proceeding to voluntarily resolve issues to the extent that such actions further the public interest. In this case, the parties that actively participated in this proceeding have executed a Stipulation to resolve all outstanding issues. No party has filed an objection to the Stipulation, and the time for doing so has expired.

CUB's arguments regarding the merits and use of the annual RVM process will be addressed during a general rate case proceeding, in which all parties will be able to make and rebut arguments on the subject. As CUB acknowledged, the merits of the RVM process itself was not at issue in this docket.

After review, the Commission concludes that the terms of the Stipulation fairly balance the interests of customers and PGE and result in a fair and just outcome. Accordingly, the Stipulation should be adopted in its entirety without modification.

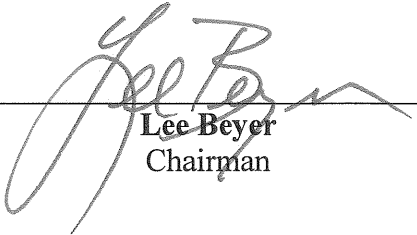
The Stipulation reduces PGE's variable power cost estimate by approximately \$3.75 million, which PGE will apply to Part A of Schedule 125. The exact impact on customer rates will not be known until November, when PGE makes its final Monet run that produces the RVM adjustment for 2006.

ORDER


IT IS ORDERED that:

- (1) The September 28, 2005, Stipulation, executed by Portland General Electric Company, the Industrial Customers of Northwest Utilities, the Citizens' Utility Board of Oregon, and the Commission Staff, is adopted, as attached at Appendix A.
- (2) Portland General Electric Company shall make the final Monet run, with updated forward curves for gas and electricity, on November 10, 2005, producing the Resource Valuation Mechanism adjustment for 2006.

Made, entered, and effective OCT 25 2005 .



Lee Beyer
 Chairman



John Savage
 Commissioner



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.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 172

In the Matter of)
)
PORTLAND GENERAL ELECTRIC) **STIPULATION**
COMPANY 2006 Resource Valuation)
Mechanism)

This Stipulation (“Stipulation”) is among Portland General Electric Company (“PGE”), Staff of the Public Utility Commission of Oregon (“Staff”), the Industrial Customers of Northwest Utilities (“ICNU”), and the Citizens’ Utility Board of Oregon (“CUB”) (collectively, the “Parties”). Capitalized terms used in this Stipulation have the meanings ascribed to them in this Stipulation.

Pursuant to the Stipulation Concerning Power Costs, adopted by the Oregon Public Utility Commission (“Commission”) in Order No. 01-777 and PGE’s Schedule 125, PGE files an annual case known as the Resource Valuation Mechanism (“RVM”) to update power costs . The Parties have been active participants in this docket. As part of that participation, PGE has filed proposed tariffs, and PGE and the other Parties have filed testimony and exhibits addressing PGE’s initial filing in this docket. Staff, CUB and ICNU have filed testimony proposing various adjustments to PGE’s net variable power costs (“NVPC”). Staff, CUB and ICNU proposed adjustments for a planned outage at the Sullivan hydroelectric plant and for two capacity tolling contracts. CUB and ICNU also proposed an adjustment related to changes to certain model inputs regarding the capacity of some hydro plants. ICNU also proposed an adjustment regarding four power purchase contracts. PGE filed rebuttal testimony on August 19, 2005.

The Parties held settlement conferences in this docket on July 7, 2005, August 2, 2005, and August 25, 2005. As a result of those settlement discussions, the Parties are entering into this Stipulation and agree to and request that the Commission adopt orders in this docket implementing the following:

STIPULATION

1. For the purpose of calculating the 2006 annual RVM update pursuant to Schedule 125, PGE will make a final RVM filing on November 10, 2005 (the "Final RVM Filing"). Prior to making the Final RVM Filing, PGE will make a filing on November 3, 2005 (the "Pre-Final RVM Filing") that locks down all data inputs in the 2006 RVM except forward price curves. In both of these filings, PGE will reflect a disallowance that decreases NVPC by \$3.75 million. PGE will apply the \$3.75 million disallowance to Part A of Schedule 125.

2. This stipulation represents a financial settlement of the issues at dispute and is a fair resolution of the issues raised given the potential outcomes in this docket. By signing this Stipulation, no Party agrees to or acknowledges whether the updates, and modeling changes proposed in this docket are consistent with Schedule 125 or previous agreements; no party agrees to or acknowledges the prudence or imprudence of any disputed costs, inputs or modeling changes; and no party agrees to or acknowledges whether the proposed updates in this docket are appropriate for inclusion in normalized retail rates. The adjustment to NVPC specified in Paragraph 1 applies only to PGE's 2006 RVM filing. The parties to this Stipulation anticipate a thorough review of the RVM in the upcoming PGE General Rate Case. By signing this Stipulation, the Parties do not waive or prejudice their right to make any arguments concerning the need, structure, or elements associated with the RVM process in that or any other future proceedings.

3. CUB reserves the ability to file additional testimony supporting this stipulation, within the context of its concerns regarding the RVM process.

4. The Parties agree that this Stipulation resolves all current issues related to PGE's 2006 RVM filing. Parties retain the right to raise objections based on new issues that arise out of the November 3rd or November 10th RVM updates.

5. The Parties agree that this Stipulation is in the public interest and will produce rates that are fair, just and reasonable.

6. The Parties agree that all previously submitted testimony in this matter may be admitted into the record.

7. The Parties shall file this Stipulation with the Commission. 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 any material condition to any final order which is 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 this Stipulation or adding such material condition.

8. 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 one and the same agreement.

9. The parties to any dispute concerning this Stipulation agree to confer and make a good-faith effort to resolve such dispute prior to bringing an action or complaint to the Commission or any court with respect to such dispute.

10. The Parties agree that this Stipulation represents a compromise in the positions of

the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding. The Parties agree that a Commission order adopting this stipulation will not be cited as precedent in other proceedings for the matters resolved in this stipulation.

11. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR § 860-14-0085. The Parties agree to cooperate in drafting and submitting the explanatory brief or written testimony required by OAR § 860-14-0085(4).

15. By entering into this Stipulation, no Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other Party in arriving at the terms of this Stipulation. Except as provided in this Stipulation, no Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

DATED THIS 28th day of September, 2005.

PORTLAND GENERAL ELECTRIC
COMPANY

CITIZENS' UTILITY BOARD OF
OREGON



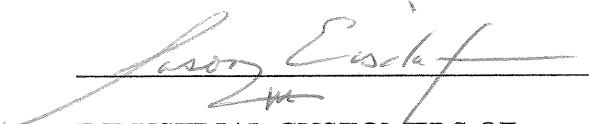
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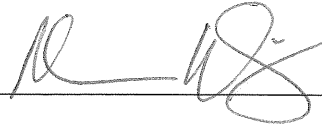


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A handwritten signature in black ink, appearing to be 'M. D.', is written over a horizontal line.