

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 319

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY,

Request for a General Rate Revision.

ORDER

DISPOSITION: STIPULATION ADOPTED; TARIFFS TO BE REVISED

I. SUMMARY

In this order, we adopt the stipulation that resolves all issues related to Portland General Electric Company's (PGE) 2018 forecast of net variable power costs (NVPC), including certain modeling changes, adjustments, and a general \$3 million reduction to 2018 test year power costs. We order PGE to file new tariffs reflecting the modifications set forth in the stipulation. The stipulation is attached as Appendix A.

II. BACKGROUND

On February 28, 2017, PGE filed Advice No. 17-06 seeking a general increase in customer rates. We suspended PGE's filing for investigation as authorized by ORS 757.215.¹ As part of this filing, PGE provided an initial forecast of 2018 NVPC, which includes wholesale power purchases and sales, fuel costs, and other costs that generally change as power output changes. The final 2018 NVPC forecast will be used to establish rates in PGE's Annual Update Tariff and for comparison with actual 2018 costs in implementing the annual Power Cost Adjustment Mechanism. Separate procedural schedules were set for NVPC issues and general rate case issues.

In its initial filing, PGE forecasted 2018 NVPC of \$353.6 million, approximately \$1.49 per MWh less than the final 2017 NVPC forecast in docket UE 308. In its direct testimony, PGE identified reduced power costs related to gas-fired generation as a primary factor contributing to this decrease. PGE explained this was due to the expiration and replacement of certain short-term gas hedging instruments.

¹ Order No. 17-074 (Mar 1, 2017) (suspending tariff filing for a period not to exceed nine months).

PGE updated its forecast on March 31, 2017, to \$352.6 million. In supporting testimony, PGE reported this update included a new contract for a portion of the output of the Wells Hydroelectric Project, to replace the contract expiring August 31, 2018.

Parties participated in a workshop on May 5, 2017, to discuss NVPC issues and review PGE's Multi-Area Optimization Network Energy Transaction power cost forecasting model (MONET). Staff and the Industrial Customers of Northwest Utilities (ICNU) filed opening NVPC testimony on June 2, 2017. On June 15 and 16, 2017, parties participated in a workshop and settlement conference and reached agreement in principle on all NVPC issues. The following parties participated in settlement discussions: PGE; Staff; the Oregon Citizens' Utility Board; ICNU; and Fred Meyer Stores and Quality Food Centers, a Division of The Kroger Co. (collectively, the Stipulating Parties).² On July 10, 2017, PGE updated its 2018 NVPC forecast to \$346.3 million. PGE indicated this reduction primarily reflected the NVPC impact of terms relating from a draft stipulation.

On September 8, 2017, the Stipulating Parties filed a NVPC Stipulation, and Joint Testimony in Support of the NVPC Stipulation.³

III. DISCUSSION

The Stipulating Parties request that we approve the adjustments and provisions in the stipulation. Based on their review of the filings in this docket and numerous data requests, they believe the proposed adjustments represent appropriate and reasonable resolutions to all NVPC issues. They agree the stipulation is in the public interest, and results in rates that are fair, just, and reasonable, consistent with ORS 756.040.

We summarize the contested NVPC issues initially raised by Staff and ICNU and how they were resolved in the stipulation.

A. Western Energy Imbalance Market (EIM) Costs and Benefits

Staff initially raised a concern that the costs of PGE's involvement in the Western EIM (effective October 1, 2017) may outweigh the benefits. Staff reasoned that, until PGE has historical data to get a better idea of actual EIM costs and benefits, the benefits should be set to match costs, particularly since this is a voluntary program. After making certain adjustments, Staff estimated that the forecasted costs of EIM participation exceed the benefits by \$1.1 million.

² While there are other intervenors, none participated in settlement discussions and the Stipulating Parties state they not aware of any opposition to the stipulation.

³ On September 8, 2017, PGE filed a motion to admit the NVPC stipulation and joint testimony into the record. We grant that motion.

The Stipulating Parties agree to increase modeled 2018 test year benefits by \$0.5 million. PGE agrees to engage an independent third party to perform a cost-benefit study for use in PGE's 2019 Annual Update Tariff filing, and to not seek deferred accounting treatment for incremental costs associated with this study.

B. Major Maintenance Expenses

Staff had questioned PGE's recovery of major maintenance expenses as a type of production operation and maintenance costs, rather than through the NVPC mechanism.

The Stipulating Parties agree to address this issue in the general rate case portion of this docket.

C. North Mist Expansion Project Overlap

Staff questioned PGE's request to recover expenses for a two-month overlap period between current Mist gas storage service and service from the North Mist Expansion Project. Staff proposed reducing the overlap to one month, suggesting PGE may access other sources of flexible capacity if needed.

The Stipulating Parties agree to include in 2018 test year modeled power costs a \$97,000 decrease to NVPC, while continuing to model a two-month overlap in MONET.

D. Boardman Biomass Research and Development Costs

Staff suggested that Boardman Biomass research and development costs (intended to assess the feasibility of displacing coal at the plant with torrefied biomass) are temporary expenses more appropriately included in NVPC than in base rates. PGE included 2018 forecasted Boardman Biomass research and development costs within administrative and general costs in its general rate case filing.

The Stipulating Parties agree to address PGE's request for recovery of these costs in the general rate case portion of this docket.

E. Coyote Forced Outage Rate

In prefiled testimony, Staff and ICNU had challenged PGE's forecast of the Coyote Springs natural gas plant forced outage rate. In particular, they questioned PGE's inclusion of the plant's extended 2013 outage in the four-year average PGE used for its 2018 forecast. Staff proposed using a collar method, similar to the method used to

exclude outliers from coal plant forced outage rates.⁴ ICNU proposed using the average equivalent forced outage rate over the four years 2012, 2014, 2015, and 2016.

The Stipulating Parties agree to use PGE's four-year rolling average method but to replace the 2013 Coyote Springs forced outage rate with the 2012 Coyote Springs rate.

F. Carty Maintenance Schedule

ICNU had suggested moving PGE's planned maintenance for the Carty Generating Station to May 2018 (instead of October 2018) to produce cost savings for customers, as MONET did not model the plant to dispatch that month.

The Stipulating Parties explain in their joint testimony that PGE made this adjustment in its July 10, 2017, MONET update. Because this change was made, the Stipulating Parties do not address this issue in the stipulation.

G. Boardman Oil Usage

ICNU disputed PGE's forecasted oil use at the Boardman coal generation plant. PGE developed the forecast using a four-year average of oil consumption over 2013-2016. ICNU argued that during the test period the plant is expected to operate at a low capacity factor relative to past years. Concluding that 2018 forecasted generation is fairly close to the 2016 level of generation, ICNU suggested using actual 2016 consumption amounts to develop the 2018 forecast.

The Stipulating Parties agree to reduce 2018 forecasted oil use by \$200,000 to reflect ICNU's recommendation.

H. Headwater Benefits Study

In a year that PGE files a general rate case, MONET is usually updated with the most recent Pacific Northwest Coordination Agreement Headwater Benefits Study, which uses historical flows to simulate output from hydro resources. Due to an issue identified with the 2015-2016 study, PGE did not make this update in its initial filing or its initial updates. ICNU objected that PGE's delay in completing its analysis of the study is not reason to allow its late incorporation in the proceeding. ICNU suggested that if PGE were allowed to modify resource attributes, parties should have similar opportunities to propose modifications to attributes of other facilities.

⁴ Stipulating Parties/100, Gibbens-Townsend-Jenks-Mullins-Niman/7 (Sep 18, 2017) (citing Order No. 10-414 at 5-6 (Oct 22, 2010)).

The Stipulating Parties agree to not update the 2018 test year NVPC forecast with the 2015-2016 study and to continue using the 2013-2014 study.

I. Other Issues

In addition to the adjustments discussed above, the Stipulating Parties agree that PGE will reduce its 2018 NVPC forecast by \$3 million to address the following issues:

- California Trading Margins: Staff objected to PGE's method of forecasting benefits of trading at the California-Oregon Border (COB), suggesting PGE undervalued these transactions. Staff proposed to modify PGE's methodology to account for the average difference between COB transaction values using actual and average margin calculations.

The Stipulating Parties agree not to change PGE's method of forecasting COB trading margins at this time. PGE agrees to explore a more granular forward-looking method of forecasting these margins for inclusion in its 2019 Annual Update Tariff filing.

- Wind Resource Capacity Factors: Staff raised concerns that PGE had over-estimated the capacity factors for its Biglow Canyon and Tucannon wind farms. Observing that PGE was aware of the generation risk when it built these facilities, Staff proposed splitting the risk between the utility and customers. Staff suggested this would incentivize PGE to appropriately forecast wind capacity factors and help create a competitive environment for renewable resource procurement.

The Stipulating Parties agree not to change PGE's method of forecasting wind capacity factor at this time. Staff reserves the right to continue investigating this issue and to propose alternative treatment in the future. The Stipulating Parties explain that Staff's proposal has implications beyond this docket and an additional year of analysis will provide a more thorough basis for a Commission decision.

- Carty Gas Supply Costs: Staff suggested the size of the 25-mile pipeline from the Gas Transition Northwest mainline to the Carty Generating Station is overly large and may have been sized to give PGE competitive advantage in bids for future gas generation. Staff proposed disallowing the portion of the line that exceeds Carty needs.

The Stipulating Parties explain that during and after settlement PGE provided clear statements that the economic analysis of the line was based on the gas and pressure requirements of Carty Unit 1 alone. PGE also provided additional data and explanation of its design analysis.

- Transmission Resale Net Revenue: Staff objected that PGE's forecasted 2018 transmission resale net revenue is substantially lower than historical resale revenues. PGE reported it had not secured any long-term resale agreements for 2018 and noted it has recently seen a softening of demand and prices for short-term resales. Staff suggested increasing the revenue forecast to equal the average revenue from 2014, 2015, and 2016.

The Stipulating Parties explain that during and after settlement PGE provided supplemental evidence that actual transmission purchases, the costs of which are not included in either net power costs or base rates, are roughly equal to transmission resale revenue, exclusive of certain large expiring contracts.

- Wells Hydroelectric Contract: Staff raised concern that the Wells contract is uneconomic. After updating power price forecasts to reflect data available to PGE when it signed the contract, Staff found the net present value of the contract diminished. Staff proposed an annual disallowance to make the net present value of the contract zero.

The Stipulating Parties explain that PGE later provided an updated model that included both updated market prices and a capacity value, and demonstrated more benefit to customers than Staff's original analysis.

J. Integrated Agreement

The Stipulating Parties state that they negotiated the stipulation as an integrated document. Should the Commission reject all or any material part of it, each party reserves its right to withdraw, meeting certain conditions, from the stipulation.

III. CONCLUSION

After review of the terms of the stipulation and the supporting information provided in the joint testimony, we find the settlement agreement reached by the Stipulating Parties produces fair, just, and reasonable rates. We conclude the stipulation should be adopted in its entirety.

IV. ORDER

IT IS ORDERED that:

1. The Stipulation between Portland General Electric Company; Staff of the Public Utility Commission of Oregon; the Oregon Citizens' Utility Board; the Industrial Customers of Northwest Utilities; and Fred Meyer Stores

and Quality Food Centers, a Division of The Kroger Co., attached as Appendix A, is adopted.

2. The Twelfth Revision of Sheet No. 125-2, the Sixteenth Revision of Sheet No. 125-3, and the Ninth Revision of Sheet No. 126-1, filed as part of Portland General Electric Company's Advice No. 17-06, are permanently suspended.
3. Portland General Electric Company must file its final MONET run on or before November 15, 2017, producing the final Annual Update Tariff adjustment for 2018.
4. Portland General Electric Company must file revised rate schedules consistent with this order to be effective no earlier than January 1, 2018.

Made, entered, and effective OCT 09 2017.

Lisa D. Hardie
Chair



Stephen M. Bloom
Commissioner

Megan W. Decker
Commissioner

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.

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 319

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY

Request for a General Rate Revision.

**NET VARIABLE POWER COST
STIPULATION**

This Net Variable Power Cost Stipulation ("Stipulation") is between Portland General Electric Company ("PGE"), Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), the Industrial Customers of Northwest Utilities ("ICNU"), and Fred Meyer Stores and Quality Food Centers, Division of The Kroger Co. ("Kroger") (collectively, the "Stipulating Parties").

PGE filed this general rate case on February 28, 2017. The filing included fourteen separate pieces of testimony and exhibits. PGE also provided to Staff and other parties voluminous work papers in support of its filing. Since that time, Staff and intervening parties have analyzed PGE's filing and work papers, and submitted more than 700 data requests obtaining additional information. Two schedules were set by the Administrative Law Judge in this matter: one for net variable power cost ("NVPC") issues, and the other for general rate case issues. Pursuant to the schedules, a NVPC workshop was held on May 5, 2017, and parties filed opening testimony on NVPC issues on June 2, 2017. A workshop and settlement conference for NVPC issues were held on June 15 and 16, 2017. As a result of those discussions, the Stipulating Parties have reached a compromise settlement of all NVPC issues, as described in detail below. No other parties participated in the NVPC settlement discussions.

TERMS OF PARTIAL STIPULATION

1. This Stipulation resolves all NVPC issues raised in this docket.
2. Western Energy Imbalance Market ("Western EIM"). PGE will increase modeled 2018 test year benefits for the Western EIM by \$0.5 million. PGE will engage with an independent third party to complete a Western EIM cost-benefit study to be used in its 2019 Annual Update Tariff (AUT) filing. PGE will not seek deferred accounting for the incremental costs associated with performing the study.
3. Major Maintenance Expenses. The issues raised regarding major maintenance expenses will be addressed in the general rate case portion of this docket.
4. North Mist Expansion Project Overlap. PGE will include in modeled power costs a \$97,000 decrease to NVPC, while continuing to model a two-month overlap in the Multi-Area Optimization Network Energy Transaction power cost forecasting model ("MONET").
5. Boardman Biomass. Biomass research and development costs will remain in PGE's Administrative and General costs and be addressed in the general rate case portion of this docket.
6. Coyote Forced Outage Rate. For purposes of settlement in this docket, in calculating the forced outage rate for Coyote Springs, PGE will replace the 2013 Coyote Springs forced outage rate with Coyote's 2012 forced outage rate.
7. Boardman Oil Use. PGE will reduce the dollar amount of the forecast oil usage at Boardman by \$200,000.

8. Headwater Benefits Study. For this docket, PGE will continue to use the 2013-2014 Pacific Northwest Coordination Agreement Headwater Benefits Study used in PGE's February 28th NVPC filing.
9. All Remaining NVPC Issues. In settlement of all remaining power cost issues:
 - a. 2018 test year power costs will be reduced by \$3 million.
 - b. PGE will explore and propose a more granular forward-looking method of forecasting California trading margins, which will be included in PGE's 2019 AUT filing.
 - c. Staff will continue to investigate the appropriate treatment of company-owned wind farm capacity factor forecasts and may propose alternative treatment of these forecasts in future proceedings.
 - d. PGE agrees to continue to respond to Staff data requests regarding the Carty Lateral.
10. The Stipulating Parties recommend and request that the Commission approve the adjustments and provisions described herein as appropriate and reasonable resolutions of the identified issues in this docket.
11. The Stipulating Parties agree that this Stipulation is in the public interest, and will contribute to rates that are fair, just and reasonable, consistent with the standard in ORS 756.040.
12. The Stipulating Parties agree that this Stipulation represents a compromise in the positions of the Stipulating Parties. Without the written consent of all of the Stipulating Parties, evidence of conduct or statements, including but not limited to term sheets or other documents created solely for use in settlement conferences in this docket, are confidential and not admissible in the instant or any subsequent proceeding, unless independently discoverable or offered for other purposes allowed under ORS 40.190.

13. The Stipulating Parties have negotiated this Stipulation as an integrated document. The Stipulating Parties, after consultation, may seek to obtain Commission approval of this Stipulation prior to evidentiary hearings. If the Commission rejects all or any material part of this Stipulation, or adds any material condition to any final order that is not consistent with this Stipulation, each Stipulating Party reserves its right: (i) to withdraw from the Stipulation, upon written notice to the Commission and the other Parties within five (5) business days of service of the final order that rejects this Stipulation, in whole or material part, or adds such material condition; (ii) pursuant to OAR 860-001-0350(9), to present evidence and argument on the record in support of the Stipulation, including the right to cross-examine witnesses, introduce evidence as deemed appropriate to respond fully to issues presented, and raise issues that are incorporated in the settlements embodied in this Stipulation; and (iii) pursuant to ORS 756.561 and OAR 860-001-0720, to seek rehearing or reconsideration, or pursuant to ORS 756.610 to appeal the Commission's final order. Nothing in this paragraph provides any Stipulating Party the right to withdraw from this Stipulation as a result of the Commission's resolution of issues that this Stipulation does not resolve.
14. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation throughout this proceeding and in any appeal, and provide witnesses to support this Stipulation (if specifically required by the Commission), and recommend that the Commission issue an order adopting the settlements contained herein. By entering into this Stipulation, no Stipulating Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other Stipulating Party in arriving at the

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terms of this Stipulation. Except as provided in this Stipulation, no Stipulating Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

15. 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.

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DATED this 8th day of September, 2017.

[Handwritten Signature]

PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

CITIZENS' UTILITY BOARD
OF OREGON

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

THE KROGER CO.

ORDER NO.

17 384

DATED this 25 day of August, 2017.

PORTLAND GENERAL ELECTRIC
COMPANY



STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

CITIZENS' UTILITY BOARD
OF OREGON

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

THE KROGER CO.

ORDER NO.

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DATED this _____ day of August, 2017.

PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON



CITIZENS' UTILITY BOARD
OF OREGON

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

THE KROGER CO.

ORDER NO.


17-384

DATED this 7th day of ~~August~~ ^{September}, 2017.

PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

CITIZENS' UTILITY BOARD
OF OREGON



INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES

THE KROGER CO.

ORDER NO.

17 384

DATED this 8th day of August, 2017.

PORTLAND GENERAL ELECTRIC
COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

CITIZENS' UTILITY BOARD
OF OREGON

INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES



THE KROGER CO.