

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: December 18, 2001

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ October 1, 2001

DATE: December 11, 2001

TO: Phil Nyegaard through Lee Sparling and Ed Busch

FROM: Maury Galbraith and Ed Krantz

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1039) Requests authorization to defer for later ratemaking treatment changes in power costs.

STAFF RECOMMENDATION:

We recommend that the Commission approve Portland General Electric Company's application to defer changes in power costs for the 12 months beginning October 1, 2001. Approval will be for accounting purposes only and does not constitute approval for ratemaking purposes.

DISCUSSION:

On October 1, 2001, Portland General Electric Company (PGE or company) filed an application under ORS 757.259 and OAR 860-027-0300 asking for approval by the Public Utility Commission to defer changes in power costs, associated with the power cost adjustment mechanism approved by the Commission in Order No. 01-777 (UE 115), for the twelve month period October 1, 2001 through September 30, 2002.

In PGE's recently concluded general rate case, Docket UE 115, the Commission approved a stipulation between PGE, Staff, Citizens' Utility Board (CUB), Fred Meyer Stores and Industrial Customers of Northwest Utilities (ICNU) covering a power cost adjustment mechanism (PCA). In that stipulation the parties agreed and the Commission authorized PGE to file an application to defer variations in actual Net Variable Power Cost (NVPC) and actual Energy Revenues from the Base NVPC and Base Energy Revenues used to establish rates in Docket UE 115. The agreement also allows the company to accrue interest on the deferred account balance using the approved cost of capital of 9.09 percent.

Description

The basis for this application is the Stipulation, which the Commission approved in Order No. 01-777. Consistent with PGE Tariff Schedule 127, PGE will track variations between actual NVPC and actual Energy Revenues from Base NVPC and Base Energy Revenues (as those terms are defined in Schedule 127 and the Stipulation) over the 15 months from October 1, 2001 through December 31, 2002 (PCA Period). The difference ((actual NVPC-Base NVPC)-(actual Energy Revenues-Base Energy Revenues)) is referred to in this application and Schedule 127 as "Power Cost Variance." This application requests Commission approval to defer any differences between Schedule 127 refunds/collections, which are based on rolling forecasts of the Power Cost Variance, and the actual adjustment amount over the PCA period, as defined in Schedule 127.

PGE will update a forecast of the Power Cost Variance for the PCA period on a quarterly basis and will adjust Schedule 127 to charge or credit to customers on a prospective basis the Power Cost Adjustment rate described in Schedule 127 over the remaining period until December 31, 2002. The Power Cost Adjustment Rate is an automatic adjustment clause, as defined in ORS 757.210(1). Amortization of any amount deferred pursuant to this application and remaining in the Power Cost Adjustment account described in Schedule 127 shall occur after the end of the PCA period. PGE seeks to defer the above-described amounts from October 1, 2001 until September 30, 2002, at which time PGE will seek reauthorization of this deferral.

Reasons for Deferral

PGE seeks deferral of these costs pursuant to the terms of the Stipulation approved in UE 115, and ORS 757.259(2)(a) and (e). The deferral generally reflects variations in PGE's NVPC and Energy Revenues. These variations may be caused by changes in retail load, fuel costs, hydro conditions, and purchased power costs, among other factors.

PGE buys a significant portion of the power needed to serve its retail customers under short-term wholesale power purchase contracts and wholesale spot market purchases from entities selling power pursuant to Federal Energy Regulatory Commission (FERC) approved tariffs. PGE claims this application for deferral is appropriate because the deferred amount reflects its power costs resulting from changes in wholesale prices of electricity purchased under tariffs approved by the FERC. ORS 757.259(2)(a).

The company also claims this deferral matches costs and benefits. The power purchases reflected in PGE's NVPC would be used to supply current customers with electricity. Customers will benefit from these purchases. This deferral will assure that the costs of the purchases will be matched with the benefits received by customers. ORS 757.259(2)(e).

Proposed Accounting

PGE proposes to record the deferral in FERC Account 254 (Regulatory Liability) if the amount is owed to customers and FERC Account 182.3 (Regulatory Asset) if the amount is owed to PGE. The offsetting entry will be recorded in FERC Account 456 (Other Revenue).

Estimate of Amounts

PGE is unable to forecast the amount of the deferral. Any forecast would be speculative given that the deferral captures the difference between the actual power cost variance and amounts collected or refunded through Schedule 127, which will be based on a series of rolling forecasts over the PCA period as described above in the Description section of this memo.

PROPOSED COMMISSION MOTION:

Portland General Electric's application to defer changes in power costs be approved for the 12 months beginning October 1, 2001.

Approval will be for accounting purposes only, and does not constitute approval for ratemaking purposes.