

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 1, 2003**

REGULAR _____ CONSENT X EFFECTIVE DATE July 2, 2003

DATE: June 20, 2003

TO: John Savage through Lee Sparling and Jack Breen

FROM: Maury Galbraith

SUBJECT: PORTLAND GENERAL ELECTRIC: (Advice No. 03-5) Revises Schedule 127 to properly amortize the Power Cost Adjustment balance related to the period October 2001 to December 2002.

STAFF RECOMMENDATION:

I recommend that the Commission allow the Third Revision of Sheet No. 127-5 filed in Advice No. 03-5 into effect on July 2, 2003.

DISCUSSION:

At a Special Public Meeting on December 19, 2002, the Commission adopted the Stipulation on the Schedule 127 Power Cost Adjustment Rate (Schedule 127 Stipulation) signed by Portland General Electric (PGE), the Citizens' Utility Board (CUB), Industrial Customers of Northwest Utilities (ICNU), and the Commission Staff (Staff) (Order No. 02-894).

Paragraph No. 10 of the Schedule 127 Stipulation states:

PGE may true-up the Schedule 127 rates effective July 1, 2003, based on actual and projected loads to recover the balance of the 2002 PCA account over the appropriate time period (one year for Schedule 83, two years for all other rate schedules) and the actual PCA balance. PGE will consult with the signing parties prior to making a decision whether to modify the collection rates. Parties are free to take any position before the Commission with regard to any modification of the collection rates.

On May 16, 2003, PGE filed Advice No. 03-5, requesting that the Commission allow the company to exercise the Schedule 127 Stipulation true-up option.

The company has indicated that actual power costs for the period October 1, 2001 through December 31, 2002 were \$11.4 million below base power costs. Actual energy revenues were \$91.2 million below base energy revenues. Combining these deviations resulted in a Power Cost Variance of \$79.9 million.¹ Application of the PCA sharing mechanism resulted in a balance of \$40.6 million. Applying catch-up interest and the settlement amount from the Schedule 127 Stipulation resulted in a recovery amount of \$38.3 million.

Paragraph No. 16 of the Schedule 127 Stipulation states:

All amounts included in the 2002 PCA account shall be subject to a prudence review and audit. Any amount disallowed by the Commission as a result of any prudence review or audit shall be removed from the 2002 PCA account, and any interest shall be recalculated, and the difference will be refunded. The prudence review and audit will be completed by December 31, 2003.

Staff has hired Hayet Power Systems Consulting and Convector Consulting (RFP No. 003-016) to conduct the audit of the 2002 PCA account. The schedule for the prudence review is the topic for a June 30, 2003 prehearing conference in Docket UM 1039.

The \$38.3 million recovery amount in the company's true-up request is \$7.7 million (25 percent) above the projected recovery amount used to set the current Schedule 127 adjustment rates (PGE Advice No. 02-19 and Order No. 02-894). The \$7.7 million increase is attributable to two primary causes. First, the company adjusted actual base energy revenues to remove revenues collected through system usage charges. Second, actual base energy revenues were below forecasted base energy revenues during December 2002.

The company has indicated that for customers subject to the Schedule 127 adjustment rates, the overall average annual rate impact of the true-up is a 1.0 percent increase. The annual rate impact for Schedule 7 customers is a 0.4 percent increase. The annual rate increase for Schedule 83 customers subject to the adjustment rates ranges from 1.8 percent to 2.3 percent.

As indicated above, all amounts included in the 2002 PCA account are subject to a prudence review and audit. If the Commission makes a disallowance based on the prudence review or audit, then the Schedule 127 Stipulation provides for refunds with

¹ Power Cost Variance equals (Actual NVPC – Base NVPC) minus (Actual Energy Revenue – Base Energy Revenue). Net variable power costs and energy revenues are for the entire 15-month period ending December 31, 2002.

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interest. With these protections in place, I recommend approval of PGE's true-up request.

PROPOSED COMMISSION MOTION:

Third Revision of Sheet No. 127-5 filed in Advice No. 03-5 be allowed into effect on July 2, 2003.