

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 18, 2003**

**REGULAR**   X   **CONSENT**        **EFFECTIVE DATE**       January 1, 2004      

**DATE:** December 9, 2003

**TO:** Lee Sparling through Ed Busch and Jack Breen

**FROM:** Maury Galbraith and Ed Krantz

**SUBJECT:** PORTLAND GENERAL ELECTRIC: (Advice No. 03-21) Implements the energy charges and resource valuation mechanism changes that correspond to the final 2004 net variable power costs provided to the Commission in Docket UE 149.

PORTLAND GENERAL ELECTRIC: (Advice No. 03-22) Modifies Schedule 105 to reflect changes in Miscellaneous Regulatory Adjustments and modifies Schedule 100 and Schedule 127 to remove the power cost adjustment rate from Schedules 83, 483, and 583.

**STAFF RECOMMENDATION:**

Staff recommends that the tariff sheets filed in Portland General Electric Advice Nos. 03-21 and 03-22 be allowed into effect on January 1, 2004, with less than statutory notice.

**DISCUSSION:**

On November 17, 2003, Portland General Electric (PGE) filed Advice Nos. 03-21 and 03-22. Each filing has a requested effective date of January 1, 2004. This Staff Report discusses each of these filings separately and then presents the combined effect of the proposed changes on customers' electric bills.

Resource Valuation Mechanism Changes (Advice No. 03-21):

On August 29, 2003, in Order No. 03-535, the Commission adopted a Resource Valuation Mechanism (RVM) Stipulation filed in Docket No. UE 149 by Portland General Electric (PGE), the Industrial Customers of Northwest Utilities (ICNU), the Citizens' Utility Board (CUB) and the Staff of the Public Utility Commission of Oregon (Staff). The

Commission also ordered PGE to make a final forecast of net variable power costs for 2004 and to produce a final RVM adjustment for 2004 on November 17, 2003.

On November 13, 2003, PGE filed its final forecast of net variable power costs for 2004. Using forward electricity prices and forward natural gas prices from November 11, 2003, and including the modifications adopted in Order No. 03-535, PGE forecast net variable power costs of \$450 million for 2004. This is a \$3 million decrease (0.6 percent) from the final 2003 net variable power cost forecast. However, with a 3.7 percent reduction in cost-of-service load this amounts to a 2.9 percent increase in average net variable power cost.

PGE filed its final RVM adjustment for 2004 as Advice No. 03-21. The RVM adjustment resets the company's energy charges and RVM adjustment rates for 2004. Based on forward electricity prices from November 11, 2003, PGE estimated the market value of its 2004 power supply to be \$697 million. PGE has set its energy charges for 2004 based on this market value. Adding fixed power costs to forecasted net variable power costs and applying a revenue sensitive cost factor, PGE has estimated its 2004 production costs to be \$660 million. Overall, the mark-to-market value of PGE's long-term and short-term resources totals \$37 million. The costs of PGE's long-term resources are \$16 million below market value. The costs of PGE's short-term market resources are \$3 million above market value. The costs of PGE's BPA Subscription power are \$24 million below market. PGE has set its RVM adjustment rates based on these differences between market value and production cost.

Staff has reviewed PGE's final forecast of net variable power costs for 2004. The final Monet run complies with Commission Order No. 03-535. Staff has also reviewed PGE's final RVM adjustment for 2004. The final RVM adjustment is consistent with the resource stacking and rate spread methodology adopted in Docket No. UE 115.

On December 8, 2003, PGE amended its November 17, 2003 filing to revise the Schedule 125 Part A rate in large nonresidential rate schedules pursuant to the Large Nonresidential Load Shift True-Up provision approved in Order 03-535. The November 17<sup>th</sup> through 24<sup>th</sup> election window resulted in PGE having to acquire an additional 106 MWa of energy to serve customers opting for the annual fixed price option. PGE was able to make these purchases at an average price below its November 11, 2003 forward price curve. Consequently, PGE has revised the Schedule 125 Part A rate for large nonresidential customers to reflect this cost saving as an increased credit. PGE has also made minor revisions to the text of Schedule 125 that describes the Large Nonresidential Load Shift True-Up. In addition, PGE proposes to change the BPA wheeling charge in Schedule 85 to reflect current BPA rates. PGE requests that all of these changes be approved with less than statutory notice. Staff has reviewed PGE's amended filing and finds the proposed changes to be reasonable.

Miscellaneous Regulatory Adjustments (Advice No. 03-22):

In Advice No. 03-22, PGE proposes to modify Schedules 127 and 100 to reflect the end of the Schedule 127 amortization period for Schedules 83, 483, and 583. The Commission adopted Schedule 127 amortization periods of one year for Schedule 83 customers and two years for non-Schedule 83 customers on December 30, 2002 in Order No. 02-894.

PGE also proposes to modify Schedule 105 to include the amortization of approved Senate Bill 1149 deferred expenditures and to combine other miscellaneous regulatory adjustments as explained below.

The purpose of Schedule 105 is to reflect the effects of regulatory adjustments such as net gains from nonrecurring property sales transactions, true-ups of UE 115 Information Technology capital expenditures, transition costs resulting from the sale of the Pelton-Round Butte hydroelectric facility and Category A advertising expenditures through customer billings. Additionally, this schedule includes the amortization of SB 1149 deferred O & M and return on incremental capital expenditures that were not included in UE 115 base rates. A summary of the annual revenue impact (changes) of both Advice Nos. 03-21 and 03-22 is shown below.

Sch. 105 – Part A (Other) <sup>1</sup>	\$ 5,860,000
Sch. 105 – Part B (SB 1149)	<u>5,501,000</u>
Total Schedule 105	\$11,361,000
Power Cost	<u>(7,035,000)</u>
Total Revenue Increase	\$ 4,326,000

Staff has reviewed Advice No. 03-22 and finds the proposed modifications to be properly supported, reasonable, and consistent with prior Commission approvals.

Combined Effect of Advice Nos. 03-21 and 03-22:

PGE filed workpapers in Advice No. 03-22 that detail the combined effect of Advice Nos. 03-21 and 03-22 on customers' electric bills. Residential (Schedule 7) customers would experience an average increase of 1.9 percent; small non-residential (Schedule 32) customers would experience an average increase of 2.8 percent; and large non-residential (Schedule 83) customers would experience an average decrease of 2.3 percent. Detail of the rate impacts is shown in Attachment A.

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<sup>1</sup> Includes property sales, Pelton-Round Butte sale, category A advertising and information technology capital.

A typical residential customer using 1,000 kWh per month will see their monthly bill increase by \$1.57, from \$80.52 to \$82.09.

The average bill increases for residential and small non-residential customers are largely attributable to a forecasted increase in the average cost of short-term resources and a forecasted increase in loads. PGE has forecasted a 5.6 percent increase in short-term average net variable power costs. The residential load forecast for 2004 is 1.8 percent higher than the residential load forecast for 2003. These factors contribute to short-term resources accounting for 18.8 percent of the total cost of the residential class resource portfolio in 2004, a 6.9 percent increase from 2003.

The average bill decrease for large non-residential customers choosing the cost-of-service option is attributable to the end of the Schedule 127 amortization period. If the Schedule 127 amortization periods had been the same for Schedule 83 customers and non-Schedule 83 customers, then the direction of the average change in customers' bills would have been the same. Short-term resources are forecasted to account for 16.5 percent of the total cost of the large non-residential class resource portfolio in 2004, a 3.5 percent decrease from 2003. However, the large non-residential load forecast for 2004 is 9.3 percent less than the forecast for 2003.

**PROPOSED COMMISSION MOTION:**

- Portland General Electric's Application to Waive Statutory Notice filed on December 8, 2003, be approved.
- Portland General Electric's tariff sheets filed in Advice No. 03-21 (as amended on December 8, 2003) and Advice No. 03-22 be allowed into effect on January 1, 2004.