

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 21, 2004**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** January 1, 2005

DATE: December 13, 2004

TO: Commissioners Lee Beyer, Ray Baum, and John Savage

FROM: Maury Galbraith and Janet Fairchild

THROUGH: Lee Sparling, Ed Busch, and Jack Breen

SUBJECT: PORTLAND GENERAL ELECTRIC: (Advice No. 04-19) Implements the energy charges and resource valuation mechanism changes that correspond to the final 2005 net variable power costs provided to the Commission in Docket UE 161.

PORTLAND GENERAL ELECTRIC: (Advice No. 04-20) Modifies supplemental rate adjustment schedules 105, 126 and 127 to reflect changes in miscellaneous regulatory adjustments and recovery of deferred power costs.

STAFF RECOMMENDATION:

Staff recommends that the tariff sheets filed in Portland General Electric Advice Nos. 04-19 and 04-20 be allowed into effect on January 1, 2005, with less than statutory notice.

DISCUSSION:

On November 15, 2004, Portland General Electric (PGE) filed Advice Nos. 04-19 and 04-20. Each filing requested an effective date of January 1, 2005. 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. 04-19):

On October 5, 2004, in Order No. 04-573, the Commission adopted a Resource Valuation Mechanism (RVM) Stipulation filed in Docket No. UE 161 by 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 preliminary RVM filing on November 3, 2004, and a final RVM filing on November 10, 2004.

Final 2005 RVM Forecast of Net Variable Power Cost:

PGE filed a preliminary forecast of net variable power costs for 2005 on November 3, 2004, and an updated forecast on November 10, 2004. PGE discussed the possibility of an unscheduled supplemental power cost forecast to mitigate the rate impact for large non-residential customers in its November 10th filing. After consultation with Staff, PGE filed a supplemental forecast on November 15, 2004, as part of Advice No. 04-19. Rate impacts and this rate mitigation are discussed later in this report.

PGE's final forecast of net variable power costs for 2005 is \$491.3 million. This is an increase of \$41.3 million, or 9 percent, from the final 2004 RVM forecast. With a 5 percent increase in cost-of-service load, this amounts to a 4 percent increase in average net variable power cost.

Staff has reviewed PGE's final forecast of net variable power costs for 2005. The final Monet run complies with Commission Order No. 03-573.¹

Final RVM Adjustment Rates:

The RVM adjustment resets the company's energy charges and RVM adjustment rates for 2005. Based on forward electricity prices from November 11, 2004, PGE estimated the market value of its 2005 power supply to be \$981 million. PGE has set its energy charges for 2005 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 2005 production costs to be \$702 million. Overall, the mark-to-market value of PGE's long-term and short-term resources totals \$279 million. The costs of PGE's long-term resources are \$183 million below market value. The costs of PGE's short-term market resources are \$40 million below market value. The costs of PGE's BPA Subscription power are \$56 million below market. PGE has set its Schedule 125 and Schedule 102 adjustment rates based on these differences between market value and production cost.

¹ The final Monet run also complies with a 2004 stipulation on the operation, costs, and benefits of the Beaver 8 combustion turbine. The stipulation was filed with the Commission on November 22, 2004.

Staff has reviewed PGE's final energy charges, Schedule 125 RVM adjustment rates, and Schedule 102 BPA Subscription adjustment rates for 2005. The final RVM is consistent with the resource stacking and rate spread methodology adopted in Docket No. UE 115. The net effect of these changes is a revenue requirement increase of \$38.9 million.

Miscellaneous Regulatory Adjustments (Advice No. 04-20):

In Advice No. 04-20, PGE proposes to modify Schedules 105, 126, and 127.

Schedule 105 (Regulatory Credits): The purpose of the Schedule 105 adjustment rates is to reflect the effects of miscellaneous regulatory adjustments (e.g., true-up of UE 115 Information Technology capital expenditures) and the amortization of approved SB 1149 expenditures. PGE proposes to increase the credit for under-spent Information technology by \$1.1 million. PGE also includes a \$2.6 million charge associated with the ratemaking treatment for the Beaver 8 combustion turbine. Several other amortization schedules—related to Period 1 Category A advertising expenditures, the property sale credit, and the Schedule 131 refund—are expected to be complete at the end of 2004 and are removed from the Schedule 105 adjustment rates. The net effect of the Schedule 105 changes is a revenue requirement increase of \$1.5 million.

Schedule 126 (Power Cost Deferral Recovery): The purpose of the Schedule 126 adjustment rates is to amortize the balance of excess net variable power costs accrued during the period January 2001 through September 2001. PGE expects amortization of the Schedule 126 balance to be completed in August 2005 under the current rate. To eliminate a mid-2005 rate change and reduce the impact of the January 2005 RVM rate change, PGE proposes to extend the amortization of the Schedule 126 balance through December 31, 2005. This results in a \$12.4 million reduction in revenue requirement.

Schedule 127 (Power Cost Adjustment): The purpose of the Schedule 127 adjustment rates is to amortize the balance of excess net variable power costs accrued during the period October 2001 through December 2002. Amortization of the Schedule 127 balance is expected to be complete at the end of 2004. As a result, PGE proposed to set the Schedule 127 amortization rates to zero, reducing revenue requirement by \$10.9 million.

Staff has reviewed Advice No. 04-20 and finds the proposed modifications to be properly supported, reasonable, and consistent with prior Commission approvals. Combining the proposed revisions to Schedules 105, 126 and 127 with the changes to PGE's energy charges and RVM adjustment rates, the overall revenue change is an increase of \$17.2 million.

Combined Rate Impact of Advice Nos. 04-19 and 04-20:

On December 9, 2004, PGE filed amendments to Advice Nos. 04-19 and 04-20 with applications to waive statutory notice. The amendment to Advice No. 04-20 corrected a typographical error. The amendment to Advice No. 04-19 was made pursuant to a Staff request regarding the Schedule 7 residential rate design.

In its November 15th filing, PGE indicated that its proposed residential rate design differed from the UE 115 stipulation in order to “mitigate an unexpected wide range of customer rate impacts and associated customer concerns about the rate change.” PGE noted that rates consistent with the stipulation would result in “a significant rate decrease in the first 250 kWh per month block and an increase in the second block.” The Company indicated that they did not believe it is appropriate to give some residential customers a noticeable increase while other customers receive a decrease, given that the overall residential rate change is 0.3 percent.

Staff agrees that the net effect of the overall 0.3 percent energy rate increase, and the Bonneville Power Administration (BPA) Subscription Power Credit, when applied in accordance with the UE 115 stipulation, does create the appearance of a rate disparity. Residential customers with monthly usage less than or equal to 800 kWh would see bill decreases. Residential customers with monthly usage greater than 800 kWh would see bill increases. For example, a customer using 250 kWh per month would see a bill decrease of 6.1 percent; a customer using 1,000 kWh per month would see a bill increase of 0.5 percent; and a customer using 3,000 kWh per month would see a bill increase of 2.4 percent.

Staff disagrees, however, with PGE's proposed mitigation. Deviating from the UE 115 stipulation would cause the Schedule 7 residential energy rate for the 250 kWh and below power block to be *higher* than the energy rate for the over 250 kWh power block. Staff believes this would send customers the wrong price signal. Further, staff believes that deviating from the UE 115 stipulation would violate the underlying principle of the BPA Subscription Power Credit rate structure. The power credit was to be allocated equally to all eligible customers. Under PGE's proposal, customers who use more energy would receive a higher percentage of the credit than would customers who use less energy. For these reasons, Staff requested that PGE amend Advice No. 04-19 to comply with the UE 115 stipulation. As discussed previously, PGE satisfied that request.

The combined effect of Advice Nos. 04-19 and 04-20 on customers' electric bills is shown in Attachment A. Residential (Schedule 7) customers would experience an

average increase of 0.3 percent. A residential customer using 1,000 kWh per month would see their monthly bill increase by \$0.38, from \$82.09 to \$82.47. Small non-residential (Schedule 32) customers would experience an average decrease of 0.7 percent; and large non-residential (Schedule 83-S) customers would experience an average increase of 3.3 percent.

As we indicated earlier, PGE filed a supplemental net variable power cost forecast on November 15, 2004, to mitigate the rate impact for large non-residential customers. In the RVM process, large non-residential cost-of-service customers have greater exposure to market price volatility than other customer groups. For 2005, customers choosing direct access and market-based rate options were expected to free-up approximately 141 MWh of PGE's long-term resources. As part of the RVM process, PGE plans to use these freed-up resources to serve the remaining large non-residential cost-of-service load. In other words, PGE sells the forecasted level of freed-up resources to the large non-residential cost-of-service customers at the same market price used to set the transition credits for the direct access and market-based rate customers. That price, however, floats with the forward market price of electricity until the final RVM filing.

On November 3, 2004, with on-peak forward electricity prices near \$59 per MWh, PGE estimated a 4.8 percent increase in large non-residential rates. This increase was roughly double previous estimates. On November 10, 2004, with on-peak forward electricity prices at \$53 per MWh, PGE estimated a 3.6 percent increase. PGE indicated that if the downward trend in forward electricity prices continued, that it would file a supplemental Monet run to further mitigate the rate increase for this customer class. On November 15, 2004, PGE filed a supplemental Monet run. The final rate increase for large non-residential customers is 3.3 percent.

PROPOSED COMMISSION MOTION:

- Portland General Electric's Applications to Waive Statutory Notice filed on December 9, 2004, be approved.
- Portland General Electric's tariff sheets filed in Advice No. 04-19 (as amended on December 9, 2004) and Advice No. 04-20 (as amended on December 9, 2004) be allowed into effect on January 1, 2005.