

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 30, 2005**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ N/A

DATE: August 22, 2005

TO: Public Utility Commission

FROM: Marion Anderson

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 225) Application for approval to sell an interest in the Boardman Coal Handling Facility located at the Boardman Generating Plant in Morrow County, Oregon.

STAFF RECOMMENDATION:

The Commission should approve the sale with the following conditions:

1. Portland General Electric Company shall provide the Commission access to all books of account, as well as, all documents, data, and records that pertain to this transaction.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
3. Portland General Electric Company shall notify the Commission in advance of any substantive changes to this transaction, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

This application was filed on June 21, 2005, pursuant to ORS 757.480 and OAR 860-027-0025. The coal handling facility's (facility) sale and leaseback were authorized by the Commission in Order No. 79-763, dated November 1, 1979, with

Portland General Electric (PGE) as sole lessee. That twenty-five year operating lease expired January 2005, and PGE exercised a five year renewal option with a discounted annual rent. After the option period, rent would have depended on the facility's fair market value. As the result of internal financial analyses based on a confidential valuation study (protected by Order No. 05-868, dated July 28, 2005), the PGE Board of Directors authorized the \$21,250,000 repurchase of the facility earlier this year. Per this application, two of the Boardman Generating Plant (Boardman) co-owners are paying for undivided interests in the facility commensurate with their Boardman ownership.

Staff investigated the following issues:

1. Scope of the Arrangement and Risk Assessment
2. Evaluation of Terms and Conditions
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

Scope of the Arrangement and Risk Assessment

Idaho Power Company (Idaho) and Power Resources Cooperative (PRC) will each purchase ten percent of the facility. Based on the purchase price, Idaho and PRC will each pay PGE \$2,150,000. Pursuant to an existing agreement, San Diego Gas & Electric Company pays a fifteen percent beneficial owner's share of Boardman's cost, including amounts related to the facility, for rights to electric power access. PGE will maintain a sixty-five percent ownership of the facility.

The aforementioned bracketed financial analyses and the confidential study were submitted to and reviewed by Staff. That documentation supports a 2005 purchase decision instead of purchasing the facility in 2010 when the lease option ended.

It is noted that in response to a Staff data request, leasehold improvements made by PGE were added to Plant in Service. A rate base inclusion decision on the facility repurchase and leasehold issues is reserved for PGE's next rate case.

Evaluation of Terms and Conditions

Idaho and PRC will make payments equal to their ownership share of the PGE purchase price. Until the Commission approves this application, approximately \$6,000 will be paid monthly by each to cover PGE's cost of capital.

Public Interest Compliance

These transactions appear to be fair, reasonable, and not contrary to the public interest.

UP 225
August 22, 2005
Page 3

Records Availability, Audit Provisions, and Reporting Requirements

Order Condition Number 1, listed above in the staff recommendation, allows the necessary Commission access to records.

PROPOSED COMMISSION MOTION:

The requested sale by Portland General Electric Company of undivided interests in the Boardman Coal Handling Facility located at the Boardman Generating Plant in Morrow County, Oregon to co-owners be approved subject to the three conditions stated in this memorandum.