

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 8, 2005**

**REGULAR**   X   **CONSENT**        **EFFECTIVE DATE**   November 9, 2005  

**DATE:** November 3, 2005

**TO:** Public Utility Commission

**FROM:** Lisa Schwartz and Maury Galbraith

**THROUGH:** Lee Sparling, Ed Busch, and Bonnie Tatom

**SUBJECT:** PORTLAND GENERAL ELECTRIC: (Docket No. UE 176/Advice No. 05-17) Revises Schedules 75 and 575, Partial Requirements Service.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission deny PGE's request to allow Advice No. 05-17 to go into effect with less than statutory notice, and the question of whether the tariff should be suspended or allowed to go into effect be set over for the public meeting of November 22, 2005.

**DISCUSSION:**

The Commission approved Schedules 75, 575, 76R and 576R, Portland General Electric (PGE) partial requirements service, on July 19, 2004. The schedules were developed through an investigation (UE 158) and resulting Stipulation filed by staff, PGE, SP Newsprint, Industrial Customers of Northwest Utilities and Oregon Department of Energy. See Order No. 04-400.

PGE filed Advice No. 05-17 on November 1, 2005, requesting that the Commission "clarify the process and time frame by which a customer may request modification of its Baseline Demand when the modification relates to changes in generation capacity or generation operations including the mothballing or removal of generating equipment." Baseline Demand represents the self-generating consumer's demand under normal operation of its on-site generation.

SP Newsprint is the sole customer taking service on PGE's partial requirements schedules. PGE's current filing was precipitated by SP Newsprint's request on October 28, 2005, to increase its Baseline Demand for 2006 (Attachment A). As a Schedule 75

customer, SP Newsprint can choose any option in Schedule 83 for Baseline Energy (energy usage up to Baseline Demand), so long as it meets the notification requirements for switching energy options.

PGE requests a waiver of statutory notice so that the filing would take effect November 9, 2005. In its application for the waiver, PGE states that the purpose is to add clarification prior to the company's Resource Valuation Mechanism (RVM) filing on November 15, 2005.

Staff recommends that the Commission reject PGE's request for a waiver of statutory notice. Staff, parties to UE 158, and others that may be affected by the filing should have sufficient opportunity to review the advice filing and provide comments to the Commission.

Unless PGE extends the effective date of the tariff filing beyond December 1, 2005, among staff's options for the public meeting on November 22, 2005, are to recommend that the Commission suspend the filing or allow the filing to go into effect – with or without an investigation under ORS 757.215(4).

While staff takes no position at this time regarding SP Newsprint's request to increase its Baseline Demand, we agree with PGE that changes to Schedules 75 and 575 should be considered to protect other customers from "precipitous decisions by partial requirements customers to switch from self generation to cost of service." At the same time, we believe that some of the proposed tariff changes go beyond clarifying the existing tariffs.

SP Newsprint's request to increase its Baseline Demand should be determined based on Schedule 75 as of the date SP Newsprint made its request, and not the tariff as amended by the Commission after that date.

#### Implications of SP Newsprint's Baseline Demand Request for PGE's 2006 RVM

PGE's annual RVM sets transition adjustment rates that reflect the costs or benefits to the utility system of customers choosing an alternative electricity supplier.

The schedule in PGE's 2006 RVM proceeding requires the company to make a final MONET filing on November 10, 2005, and to post Schedule 125 transition adjustment rates on November 15, 2005. The appropriate load forecast for PGE's RVM filing is affected by whether SP Newsprint's request to increase Baseline Demand meets the conditions in Schedule 75 for making such a change.

The Schedule 125 Part A adjustment rates are calculated as the difference between PGE's projected forward market prices, adjusted for delivery to the company's system, and the expected cost of power from long-term resources delivered to PGE's system, divided by expected system loads. The Part A adjustment rate for large nonresidential customers is affected by SP Newsprint's request to increase its Baseline Demand. If PGE grants SP Newsprint's request, expected large nonresidential load would increase, and the Part A adjustment credit would decrease for all large nonresidential customers.

A reduced Part A credit would result in higher cost of service rates for large nonresidential customers. It also would affect customers that receive energy service from PGE under a standard offer rate and those that receive service from an alternative electricity supplier (except for those participating in Schedule 483).

If PGE denies SP Newsprint's request to increase Baseline Demand based on PGE's reading of the current tariff language, SP Newsprint may file a complaint under ORS 756.500 and OAR 860-013-0015. If PGE does not include the requested increase in Baseline Demand in its load forecast in the 2006 RVM filing, PGE is at risk of under-recovery if the Commission later determines that the request for a change in Baseline Demand was inappropriately denied. Alternatively, PGE could include SP Newsprint's requested increase in Baseline Demand in its load forecast in the 2006 RVM filing, and set higher large nonresidential rates, subject to refund, that would keep PGE whole in the event that the Commission later determines that the request should have been granted.

The Commission does not need to make a decision at this time about SP Newsprint's request to change its Baseline Demand under the terms of the existing Schedule 75.

**PROPOSED COMMISSION MOTION:**

Portland General Electric's request to allow Advice No. 05-17 to go into effect with less than statutory notice be denied, and the question of whether the tariff should be suspended or allowed to go into effect be set over for the public meeting of November 22, 2005.

10/28/05

Craig Zuck  
Senior Key Customer Manager  
Portland General Electric  
122 SW Salmon Street  
1WTC0807  
Portland Oregon, 97204

Subject: Request to Increase Baseline Demand from 2000 KW to 20,000 KW

Dear Craig:

Subject to PGE Rate Schedule 75 and Special Condition #9 of Rate Schedule 75, SP Newsprint requests that the Baseline Demand for its Newberg mill be increased from 2,000 kW to 20,000 kW effective January 1, 2006. Rate Schedule 75 defines the Baseline Demand as:

“the Demand normally supplied by the Company to the Large Nonresidential Consumer when the Consumer’s generator is operating. The Consumer’s typical peak Demand for the most recent 12 months prior to installing the generator, adjusted for generator operations, shall be used to calculate the Baseline Demand. The Company and Consumer may mutually agree to use an alternate method to determine the Baseline Demand when the Consumer’s Demand is highly variable. Any modification to the Baseline Demand must be consistent with the Special Condition.”

Special Condition #9 of Rate Schedule 75 further states that:

“The Consumer’s Baseline Demand may be modified as requested by the Consumer upon the addition of permanent energy efficiency measures, load shedding, or the removal of equipment. The Consumer’s Baseline Demand may be modified by the Company if the Company determines that the level does not reflect load adjusted for the actual Consumer generation.”

During this last year, customer demands required that we develop and offer a lighter weight (27 lbs) newsprint grade in addition to the traditional standard weight (30lbs) to our customers. The demand for the lighter weight product has increased from about 25% of our production at the beginning of 2005 to about 75% today. The reduction in weight has created a corresponding reduction in the amount of pulp (fiber) necessary to supply the same amount of print surface. This has changed our pulp supply mix causing us to use more recycle pulp and less thermal mechanical pulp (TMP). The TMP is extremely energy intensive, all in the form of electricity. Additionally, the TMP pulp presents a quality issue with linting that de-inked pulp does not. Overall we now need less MW’s to make a roll of paper.

This reduction in energy demand is being accomplished by:

- De- bottlenecking our recycle Deink Pulp mill.
- Installing more efficient refiner plates

- Operating without No 2 refiner line
- Reduced operations of No. 1 refiner line.

This reduced base load electric energy consumption will render the economic dispatch of our second gas turbine subject to prevailing power and natural gas prices<sup>1</sup>. At projected natural gas and power prices for 2006 it is expected that the second gas turbine will be dispatched only during high system wide demand periods. Due to the permanent energy efficiency measures, and the shutting down of production lines, a Baseline Demand of 20,000 kW is considered more appropriate at this time.

SP requests that PGE increase the Baseline Demand at the Newberg Mill from 2,000 kW to 20,000 kW effective January 1, 2006 for a period of one year. No decision has been made at this time to permanently remove "refiner lines" or a gas turbine from the Newberg mill, but may be considered in the future.

SP Newsprint understands that Special Condition 10 of Rate Schedule 75 requires that Energy used above the initial Baseline Demand (2,000 kW) and below the revised Baseline Demand will be priced at the Daily Price Option contained in Schedule 83 unless the Consumer has given the required notice to change the applicable Schedule 83 Energy Charge Option.

Sincerely,

C. E. "Ed" Smith  
Corporate Energy Manager

cc Lisa Schwartz  
Maury Galbraith  
Bruce Craig  
Ken Li  
Randy Blank  
Mark Rawlings

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<sup>1</sup> The efficiency of the gas turbines at the Newberg mill changes depending upon the prevailing operating conditions and the chosen output level. The effective heat rate (amount of natural gas used per unit of electric output) changes depending upon whether the machine is in start-up, shut-down, fully loaded, or partially loaded. Future operation of the second gas turbine will be more dependent upon the prevailing market heat rate.