

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 20, 2005**

REGULAR X CONSENT EFFECTIVE DATE January 1, 2006

DATE: December 14, 2005

TO: Public Utility Commission

FROM: Maury Galbraith and Carla Owings

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Advice No. 05-18) Implements the energy charges and resource valuation mechanism changes that correspond to the final 2006 net variable power costs provided to the Commission in Docket No. UE 172.

PORTLAND GENERAL ELECTRIC: (Advice No. 05-19) Proposes modifications to Schedules 101, 105, 107, 114, 126, and removes Schedule 97 in its entirety, to reflect changes in miscellaneous regulatory adjustments and recovery of deferred costs.

STAFF RECOMMENDATION:

Staff recommends that the tariff sheets filed in Portland General Electric Advice Nos. 05-18 and 05-19 be allowed into effect on January 1, 2006. The Schedule 125 Part A adjustment rates contained in the Eleventh Revision of Sheet No. 125-3 and Twelfth Revision of Sheet No. 125-4 should only be allowed into effect subject to refund.

DISCUSSION:

On November 15, 2005, Portland General Electric (PGE) filed Advice Nos. 05-18 and 05-19. Each filing requested an effective date of January 1, 2006. 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. 05-18):

On October 10, 2005, in Order No. 05-1140, the Commission adopted a Resource Valuation Mechanism (RVM) Stipulation filed in Docket UE 172 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 its final MONET run for the 2006 RVM on November 10, 2005.

Final 2006 RVM Forecast of Net Variable Power Costs:

PGE filed preliminary MONET forecasts of net variable power costs for 2006 on November 3, 2005, and its final MONET forecast of the 2006 RVM on November 10, 2005. PGE's final forecast of net variable power costs for 2006 is \$631.6 million. This is an increase of \$140.3 million, or 28.6 percent, from the final forecast in the 2005 RVM. With a 5 percent increase in cost-of-service load, this amounts to a 27 percent increase in average net variable power costs. The increase in power costs is largely attributable to increased forward market prices for electricity and natural gas during 2005.

Staff has reviewed PGE's final forecast of net variable power costs for 2006. The final Monet run complies with Commission Order No. 05-1140.

Final RVM Adjustment Rates:

In its filing on November 3, 2005, PGE indicated that a large customer currently taking service on PGE's Schedule 75 Partial Requirements Tariff (later identified as SP Newsprint Company (SP Newsprint)) had requested to increase its baseline demand from 2 megawatts (MW) to 20 MW. PGE indicated that it did not believe SP Newsprint was eligible to increase its baseline demand under the terms of Schedule 75. PGE estimated that if SP Newsprint was eligible to increase baseline demand, and received the Schedule 125 Part A adjustment rate for 2006, the incremental impact on large non-residential cost-of-service rates would be an increase of 0.8 percent. This dispute was briefly discussed at the Commission's Public Meeting on November 22, 2005, as part of a broader discussion regarding PGE's request to revise Schedule 75 and Schedule 575.

On December 2, 2005, SP Newsprint filed a complaint against PGE requesting that the Commission order PGE to allow SP Newsprint to modify its baseline demand under Schedule 75. SP Newsprint's complaint was docketed as UM 1235.

On December 14, 2005, PGE filed: (1) its answer to the complaint of SP Newsprint; (2) a stipulation between PGE and SP Newsprint to resolve the UM 1235 complaint

proceeding; and (3) a motion to set the intervention deadline and to shorten the time for objections to the stipulation between PGE and SP Newsprint. The stipulation would set SP Newsprint's baseline demand at 11 MW for 2006. PGE requested that the deadline for objections to the stipulation be set at December 23, 2005. PGE requested expeditious treatment of the stipulation because the resolution of this matter affects not only the rates paid by SP Newsprint, but also the Schedule 125 Part A credits received by other large non-residential customers beginning January 1, 2006. Staff has not completed its review of the stipulation between PGE and SP Newsprint.

Staff has reviewed PGE's final energy charges, Schedule 125 RVM adjustment rates, and Schedule 102 BPA Subscription adjustment rates for 2006. The calculation of the final RVM rates is consistent with the resource stacking and rate spread methodology adopted in Order No. 01-777 (Docket UE 115).¹ However, PGE calculated the Schedule 125 Part A adjustment rates using a load forecast that includes SP Newsprint's requested baseline demand of 20 MW. The result of this calculation is to reduce the Schedule 125 Part A credits for large non-residential customers from the level they would be had PGE included SP Newsprint's baseline demand at the current 2 MW or at the stipulated 11 MW for 2006. Since the dispute regarding SP Newsprint's baseline demand for 2006 remains unresolved, Staff recommends that PGE's Schedule 125 Part A adjustment rates only be allowed into effect subject to refund.

Miscellaneous Regulatory Adjustments (Advice No. 05-19):

In Advice No. 05-19, PGE proposes to modify Schedules 101, 105, 107, 114 and 126. Additionally, PGE proposes to terminate Schedule 97, which has been previously closed to new service, because no customers are served under it.

PGE proposes to modify Schedules 101, 114 and 126 by consolidating the residual balances of these accounts into Schedule 105. The Company proposes to net the residual balances against each other and fully amortize the balance by December of 2006. The modification proposed for Schedule 107 is to reduce the amortization rate in order to prevent over-amortizing the balance. Following is a more specific explanation of each of the modifications proposed for each schedule:

¹ The calculation of the Schedule 125 Part B adjustment rates for large non-residential customers includes a \$4.4 million credit which is the result of the hedge transaction referred to as the "costless collar" that was requested by PGE in Advice No. 05-8 and approved by the Commission at a Public Meeting on June 29, 2005.

Schedule 101 (Energy Efficiency Adjustment/SAVE): The Company proposes to terminate this schedule and transfer the estimated remaining residual balances to Schedule 105.

The current purpose of this schedule is to collect customer payments on Energy Services Financing Option (ESFO) loans, Zero Interest Loan Program (ZIP) payments and the SAVE program. These programs were in effect and are part of the transition programs funded by the Energy Trust. The ESFO loans are expected to expire in March of 2006 and the Company estimates a balance of approximately \$40,000 at that time. PGE proposes to transfer this balance to Schedule 105 on March 30, 2006.

The ZIP payments are a result of repayments of loans made by the Company in previous years. For payments received in 2004 and 2005, PGE has transferred the balance of approximately \$25,600 to the Energy Efficiency Adjustment (EEA) deferral account. Beginning January 1, 2006, the Company proposes to record these payments in regulatory liability account, FERC 254 (PGE Ledger K89035). The ZIP loan payments will accrue interest monthly at PGE's authorized cost of capital until refunded to customers.

For the SAVE account, the Company estimates a year-end balance of approximately \$2.2 million to transfer to FERC Account 254 and then to be collected through Schedule 105. Interest will accrue on a monthly basis at PGE's authorized cost of capital.

Schedule 114 (FAS 109): The Company proposes to transfer the balance of this schedule to Schedule 105 and to readjust the collection rates as of January 1, 2006, in order to complete amortization of the remaining balance by December 31, 2006. Interest does not accrue to this collection.

Schedule 126 (Power Cost Deferral Recovery): The Company proposes to transfer the residual debit balance of approximately \$500,000 on December 31, 2005, to Schedule 105, off-setting some of the residual balances being transferred from Schedule 101.

Schedule 105 (Regulatory Credits): The purpose of this Schedule is to adjust rates to reflect the effects of miscellaneous regulatory adjustments such as net gains from nonrecurring property transactions, true-ups to UE 115 CIS/IT costs and costs associated with the implementation of SB 1149. PGE proposes to transfer the residual balances of each of the above-described schedules to Schedule 105 in order to distribute the balances in 2006.

Schedule 105, Part A, will also include the amortization of Category A Advertising expenses consistent with the UM 1040 investigation and the signed stipulated agreement between the Company and Staff. Schedule 105, Part B, will include the year-end balance from Schedule 114 FAS 109 account that will be fully amortized by the end of 2006.

Schedule 107 (DSM Refinancing Adjustment Account): Schedule 107 is expected to be fully amortized as of October 2006 if collected at the current rates. In order to prevent early amortization and over-collection, the Company proposes to reduce rates in order to amortize the full balance in December 2006 rather than October 2006.

Combined Rate Impact of Advice Nos. 05-18 and 05-19:

The combined changes proposed in Advice Nos. 05-18 and 05-19 would result in a rate increase of approximately 1.7 percent for residential customers served on Schedule 7. Small nonresidential customers served on Schedule 32 would experience a rate increase of approximately 5.3 percent and large nonresidential customers served on the cost-of-service option of Schedule 83 would experience an increase of approximately 5.7 percent. The overall rate impact for cost-of-service customers would be a 3.7 percent increase (see Attachment A).

PROPOSED COMMISSION MOTION:

The tariff sheets filed in Portland General Electric Advice Nos. 05-18 and 05-19 be allowed into effect on January 1, 2006. The Schedule 125 Part A adjustment rates contained in the Eleventh Revision of Sheet No. 125-3 and Twelfth Revision of Sheet No. 125-4 be subject to refund.