

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 13, 2006**

REGULAR _____ CONSENT X EFFECTIVE DATE June 17, 2006

DATE: June 6, 2006

TO: Public Utility Commission

FROM: Bonnie Tatom

THROUGH: Lee Sparling and Ed Busch

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UE 186/
Advice No. 2006-S1) Provides special contract arrangements between
Portland General Electric and Columbia River Processing for steam.

STAFF RECOMMENDATION:

I recommend that the Commission allow Portland General Electric Company's (PGE or the company) Advice No. 2006-S1 to go into effect for meter readings on or after June 17, 2006.¹

DISCUSSION:

The OPUC received PGE's Advice No. 2006-S1 on May 12, 2006. The filing extends the current special contract under which PGE's Coyote Springs plant will supply steam to Columbia River Processing (Tillamook Cheese).

On May 16, 2006, the company filed a revised version of the steam contract, removing the words "Subject to Protective Order" from the confidential language at the bottom of each page of the document. However, PGE still considers portions of the executed and revised contract as proprietary.

At its public meeting on June 15, 2001, the Commission allowed the company's existing special contract with Columbia River Processing to go into effect on June 16, 2001. In Order No. 01-489, entered June 15, 2001, the Commission allowed the contract to go

¹ This Staff recommendation requires that OAR 860-022-0032 be waived. This rule states that tariff changes are applicable with service rendered on or after the effective date. Therefore, Advice No. 2006-S1 has been docketed as UE 186. If the Commission accepts the Staff recommendation, a UE 186 order waiving OAR 860-022-0032 will need to be issued.

into effect for meter readings on and after June 16, 2001, by waiving OAR 860-022-0032.

The Current Contract

The current contract with Columbia River Processing represents the third steam sale for the Coyote Springs plant. The contract now provides for steam deliveries of up to 15,000 pounds per hour on a continuous year around basis. The contract had a five-year term, expiring June 16, 2006.

The contract had a cost-based price for the first three years and opportunity-cost pricing for years four and five. This pricing structure addressed Staff's concern at the time of the original filing that a contract that was only cost-based (Coyote's cost of production) wouldn't reflect the price of foregone power generation (in order to supply steam to an industrial customer PGE may have needed to forego some electric production from the steam generator portion of its combined-cycle plant, *i.e.*, *when steam is provided by the gas turbine exhaust, the electric output loss from the steam generator is roughly 0.1 MWh per 1000 pounds of delivered steam*).

The New Contract Filing (Extending the Current Contract)

The new contract will extend the current contract for at least one year, allowing four subsequent options to renew for an additional one-year term. The new contract differs from the existing contract in several ways. First, the price of steam is adjusted at least quarterly, or monthly at the steam customer's election. With proper notice and upon completion of their current election, the customer can change the pricing option. The second major change is that the price of lost generation now directly affects the price of steam charged, with market-based pricing taken from Schedule 83. Third, the steam cost includes an O & M component that includes the cost of producing steam from the auxiliary boiler, as well as the costs of water, maintenance and chemicals.

The new contract will produce a lower price for steam than the current contract with current hydro conditions (and depressed electric prices relative to gas prices). Under different conditions, especially if electric prices run up relative to gas, as they would in a drought year, the new contract would produce higher prices. Importantly, the new contract will track both gas and electric prices and price steam at its cost to PGE's customers.

Review

Based upon my review of the steam sale pricing calculation, I conclude that the expected revenue will be sufficient to cover PGE's relevant costs of providing steam to the Columbia River Processing plant. In addition, the contract remains non-discriminatory (four more steam contracts will be filed this year and those contracts will

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have similar pricing terms), and PGE's customers are held harmless, as this contract incorporates the opportunity-cost pricing more thoroughly discussed and allowed in Order No. 01-489 in Docket UE 125. It is my conclusion that the Columbia River Processing steam sale contract is in the public interest.

PROPOSED COMMISSION MOTION:

The Commission waive OAR 860-022-0032 and allow PGE Advice No. 2006-S1 to go into effect for meter readings on or after June 17, 2006.