

ITEM NO. CA8

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 5, 2006**

REGULAR **CONSENT** **EFFECTIVE DATE** December 14, 2006

DATE: November 21, 2006

TO: Public Utility Commission

FROM: Bill McNamee

THROUGH: Lee Sparling, Ed Busch and Bonnie Tatom

SUBJECT: PORTLAND GENERAL ELECTRIC: (Advice No. 2006-S3) Provides a steam contract between Portland General Electric and ConAgra Foods Packaged Foods Company, Inc.

STAFF RECOMMENDATION:

I recommend that the Commission allow Portland General Electric Company's Advice No. 2006-S3 to go into effect on December 14, 2006.

DISCUSSION:

On October 23, 2006, Portland General Electric (PGE) filed Advice No. 2006-S3 per ORS 757.005, ORS 757.007, and ORS 757.009. The filing revises and extends a special contract under which PGE's Coyote Springs natural gas fired generating plant will supply steam to ConAgra Foods Packaged Foods Company, Inc. (ConAgra). The original five-year contract was approved by the Commission at its December 3, 2001, public meeting.¹

SUMMARY OF CONTRACT

ConAgra operates a food processing (potatoes) facility located in Morrow County, Oregon. The revised contract provides for steam deliveries of up to 35,000 pounds per hour. The new contract initially has a one-year term, with four succeeding options to renew for an additional one-year term. Each one-year renewal is automatically exercised unless either party provides a 180-day termination notice.

¹ The original contract was with Logan International, Ltd., which was subsequently acquired by ConAgra.

When PGE's Coyote Springs plant provides steam from its gas turbine exhaust, the electric output of the steam generator is reduced by roughly .1 MWh per 1000 pounds of steam delivered. Therefore, the steam price formulation needs to take into account the value of the lost generation. The contract accomplishes this by including PGE's Forward Market Price (*consistent with the market-based pricing in the Company's Schedule 83 Standard Offer Service – Large Nonresidential*), as a variable in the steam price calculation. Other pricing variables include PGE's cost of water, chemicals, and operation and maintenance of steam delivery facilities, including the auxiliary boiler.

Under the steam contract's terms, the customer may select either a quarterly or monthly pricing option. Given the contract's price formulation, the customer's steam price will vary with changes in the electric marketplace. The pricing structure in ConAgra's revised contract is consistent with the Columbia River Processing steam sale contract, that was approved by the Commission at its June 13, 2006, public meeting (see *Advice No. 2006-S1*). Consistency in pricing for similarly-situated Coyote Springs' steam customers addresses the OPUC review criteria that a special contract not present price discrimination concerns.

REVIEW

Past OPUC reviews of steam sale contracts have applied the applicable standards for special contracts that are set forth in ORS 757.230 and Order No. 87-402. Based on these standards, the Staff review of a steam sale contract considers the following criteria: (1) The revenue generated from the steam sale should be sufficient to cover relevant costs; (2) Other PGE customers should be held harmless; and (3) The contract should not be discriminatory.

Based upon my review of the ConAgra steam sale contract, I conclude that the expected revenue will be sufficient to cover PGE's relevant production costs of providing steam to ConAgra's facility. With PGE's steam sale costs covered, other customers are held harmless. As mentioned, the pricing structure in the ConAgra contract is consistent with the pricing formulation in the Columbia River Processing steam sale contract. Therefore, there is no price discrimination between similarly-situated customers.

As a general policy, the OPUC has historically supported the concept of cogeneration - the simultaneous production of electricity and other useful energy (*in this case steam*)

PGE Advice No. 2006-S3
November 21, 2006
Page 3

as a means to enhance the efficient use of energy. Given this policy, it is my conclusion that the steam sale to ConAgra is in the public interest.

STAFF RECOMMENDATION

Portland General Electric Company's Advice No. 2006-S3 be allowed to go into effect on December 14, 2006.