

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 9, 2007**

REGULAR CONSENT EFFECTIVE DATE January 1, 2007

DATE: September 5, 2007

TO: Public Utility Commission

FROM: Carla Owings

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1290) Requests Authorization to Defer Costs Associated with Transportation of Natural Gas.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric's request to defer costs associated with the transportation of natural gas effective January 1, 2007, through December 31, 2007, pursuant to ORS 757.259. Staff recommends the amortization of these costs be reserved for a ratemaking proceeding.

DISCUSSION:

On December 20, 2006, Portland General Electric ("PGE" or the "Company") submitted a request for authorization to defer costs associated with the transportation of natural gas pursuant to ORS 757.259, to become effective January 1, 2007, through December 31, 2007.

In PGE's most recent rate case, UE 180, PGE submitted forecasts of costs associated with the transportation of natural gas in its test year expenses commensurate with projected rates for two of its transportation resources: Gas Transmission Northwest ("GTN") and Northwest Pipeline ("NWP"). Both GTN and NWP had filed rate cases with the Federal Energy Regulatory Commission ("FERC") requesting authorization for new gas transportation rates. NWP provides gas transportation for PGE's Port Westward facility as well as its Beaver facility. GTN provides gas transportation to PGE's Coyote facility.

Since PGE's test period represents a future test year, PGE submitted a forecast of transportation costs and included in its forecast the new rates proposed by each of the transportation companies. PGE did this knowing that any decision from FERC would not exceed the projected costs submitted by PGE in UE 180. Pursuant to a Stipulation regarding RVM Issues in PGE's UE 180 rate proceeding filed on August 23, 2006, the parties agreed that PGE would request an authorization from the Commission to defer the difference between the transportation costs forecast in its UE 180 test period and the actual transportation costs resulting from the new rates issued by FERC for GTN and NWP.

On March 30, 2007, PGE received a letter from FERC notifying PGE of FERC's Acceptance of Settlement in Docket No. RP06-416-000, Northwest Pipeline Corporation. The letter stated that a Settlement had been reached in the NWP docket and that new rates would be retroactive to January 1, 2007. Although no settlement has been reached in the GTN rate proceeding, PGE has informed Staff that settlement discussions were scheduled to take place in September of 2007.

Reason for Deferral

PGE seeks approval of this deferral pursuant to ORS 757.259(2)(e). This deferral will minimize the frequency of rate changes and match appropriately the costs borne and benefits received by ratepayers. PGE's customers have paid for transportation costs embedded in current rates at a rate higher than what PGE will actually have to pay for gas transportation. Additionally, PGE has committed in the Stipulation Regarding RVM Issues, that the difference between actual costs and forecast costs should be deferred.

Proposed Accounting

PGE proposes to record the deferral as a regulatory liability in FERC Account 254 (Other Regulatory Liabilities) and debit FERC Account 547 (Fuel). Absent approval of this deferral, PGE would retain the difference in the amount of transportation costs embedded in rates and the actual amount it pays under the new rates issued by FERC.

Estimate of Amount

To determine the incremental Net Variable Power Costs (NVPC), PGE will use the NVPC from the Monet Run used in the Final RVM Filing and compare it to the NVPC from the Supplemental Monet Run. If PGE's NVPC from the Supplemental Monet Run is greater than the NVPC from the Final RVM Filing, then the Deferred Amount will be a cost to be recovered from customers. If PGE's NVPC from the Supplemental Monet Run is less than the NVPC from the Monet Run used in the Final RVM Filing, then the

Deferred Amount will be a credit to be refunded to customers. The Parties have agreed that 100 percent of the deferred amount will be allocated to customers without consideration of any sharing or deadbands and that no party shall oppose the amortization of the Deferred Amount on the basis of PGE's earnings or on the basis that the amortization of the Deferred Amount will cause PGE to exceed the 3% limit specified in ORS 757.259(6). PGE estimates the amount to be deferred associated with the Settlement Docket at FERC for NWP to be approximately \$1.4 million credit that will be returned to PGE's ratepayers. No estimate of costs has been provided pursuant to the amounts included for the GTN rate case.

Staff has reviewed PGE's application as well as work papers provided by PGE to document the calculation of the new rates. Staff is continuing to work with PGE to finalize the appropriate amount to defer pursuant to the Letter of Settlement for NWP. Staff recommends that the Commission approve PGE's request to defer amounts associated with costs associated with transportation of natural gas.

PROPOSED COMMISSION MOTION:

The Commission approve Portland General Electric's request to defer costs associated with the transportation of natural gas effective January 1, 2007, through December 31, 2007, pursuant to ORS 757.259. The amortization of these costs be reserved for a ratemaking proceeding.