

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 26, 2008**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** September 1, 2008

DATE: July 31, 2008

TO: Public Utility Commission

FROM: Lisa Gorsuch

THROUGH: Lee Sparling, Ed Busch, and Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Advice No. 2008-S1) Provides special contract arrangements between PGE and Upper Columbia Mill, LLC, for steam heat.

STAFF RECOMMENDATION:

Staff recommends that the Commission allow Portland General Electric's Advice No. 2008-S1 to go into effect on September 1, 2008.

DISCUSSION:

On July 23, 2008, Portland General Electric (PGE) filed Advice No. 2008-S1 per ORS 757.005, ORS 757.007, and ORS 757.009. This filing consists of a special contract under which PGE's Coyote Springs natural gas fired generating plant will supply steam to Upper Columbia Mill, LLC.

The Upper Columbia Mill, LLC is a new wood planing mill located at the Port of Morrow near Boardman, Oregon. PGE's Coyote Springs Plant has not provided steam to this facility in the past. This is a new contract.

Summary of Contract

The proposed steam sale contract provides for steam deliveries of up to 40,000 pounds per hour. Upon prior written notice, an additional 20,000 pounds per hour may be delivered and sold under this contract for future capacity expansion. The contract 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 notice.

Under this contract, Upper Columbia Mill, LLC will be required to deliver all condensate (water) to PGE not being utilized by them for industrial purposes up to, but not more than, 100% of the pounds of steam purchased by Upper Columbia Mill, LLC on an average basis over each calendar year. This section of the contract ensures PGE's Coyote Springs Plant will have an ample water supply to serve the maximum demand possible, at any given time, of existing steam sale customers as well as Upper Columbia Mill, LLC. The terms, conditions, and compensation surrounding the return of condensate were reviewed by Staff and found reasonable.

Lost generation ¹ is taken into account with regard to the steam price formulation. The steam price calculation includes PGE's Forward Market Price per the market-based pricing in the Company's Schedule 83 Standard Offer Service – Large Nonresidential, to allow for the lost generation. In addition, other pricing variables include PGE's cost of water, chemicals, and operation and maintenance of steam delivery facilities, including the auxiliary boiler.

Under the terms of the steam contract, the customer may select either a quarterly or monthly pricing option. Upper Columbia Mill, LLC has selected the monthly pricing option. The pricing structure in the special contract between PGE and Upper Columbia Mill, LLC is consistent with steam sale contracts previously approved by the Commission. ² 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

Historically, Staff reviews of steam sale contracts have applied the relevant standards for special contracts that are set forth in ORS 757.230 and Order No. 87-402. Based on these standards, review of a steam sale contract includes consideration of 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 Upper Columbia Mill, LLC steam sale contract, I conclude that the expected revenues will be sufficient to cover PGE's relevant production costs of providing steam to the Upper Columbia Mill's facility.

¹ 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.

² (1) Advice No. 2006-S1-Columbia River Processing, (2) Advice No. 2006-S2 - Boardman Foods, Inc., (3) Advice No. 2006-S3 - ConAgra Foods Packaged Foods Company, Inc., and (4) Advice No. 2007-S1 - JHS Farms Inc.

With PGE's steam sale costs covered, other customers are held harmless. As mentioned, the pricing structure in the Upper Columbia Mill, LLC contract is consistent with the pricing formulation in PGE's steam sale contracts with other customers. Therefore, there is no price discrimination between similarly-situated customers.

As a general policy, the Commission has historically supported the concept of cogeneration -- the simultaneous production of electricity and other useful energy (in this case steam) -- as a means to enhance the efficient use of energy. Given this policy, it is my conclusion that the steam sale to Upper Columbia Mill, LLC is in the public interest.

PROPOSED COMMISSION MOTION:

PGE Advice No. 2008-S1 be allowed to go into effect on September 1, 2008.