

ITEM NO. 2A

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 19, 2013

REGULAR X CONSENT \_\_\_\_\_ EFFECTIVE DATE January 1, 2014

DATE: December 12, 2013

TO: Public Utility Commission

FROM: John Crider *Jc*

THROUGH: Jason Eisdorfer, *I* Maury Galbraith, *UG by RA* and Aster Adams *AA*

SUBJECT: PORTLAND GENERAL ELECTRIC:  
(Docket No. UE 266/Advice No. 13-29) Revises Schedule 125 for the annual power cost update reflecting the final projected 2014 Net Variable Power Costs (NVPC).

**STAFF RECOMMENDATION:**

Staff recommends that the tariff sheets filed by Portland General Electric (PGE or Company) as Advice No. 13-29 be allowed to go into effect on January 1, 2014.

**DISCUSSION:**

Initial Filing

On February 15, 2013, PGE filed its 2014 net variable power cost (NVPC) projection, consistent with the terms of its Schedule 125, which implements the Company's Annual Update Tariff (AUT). The Company filed the AUT as part of their general rate case (GRC) and docketed as Docket UE 262. The filing also included direct testimony in support of the 2014 NVPC projection of \$639.2 million, approximately \$34.32 per megawatt-hour (MWh), which would have translated into an overall rate reduction of approximately \$0.87 per MWh over the final 2013 projected power cost. The primary factors responsible for the reduction were lower natural gas cost, and lower prices for contract and market purchases.

Because PGE filed its 2014 NVPC filing concurrently with its request for a general rate revision, the company was permitted to include certain model changes and updates to MONET, as permitted per Order No. 07-015. The Company proposed to update several features of the modeling in MONET, including:

1. The use of a five-year rolling average when forecasting wind energy;
2. The use of MONET's dynamic programming model for dispatching coal plants similar to the modeling of gas-fired resources;
3. The use of monthly values of variable operation and maintenance (O&M) expenses for dispatching purposes;
4. The update of MONET's modeling of ancillary services;
5. The inclusion in PGE's hydro data of the latest Pacific Northwest Coordination Agreement (PNCA) Headwater Benefits study;
6. The inclusion of emission control chemicals in NVPC rather than in O&M expenses;
7. The inclusion of the biomass test burn at the Boardman plant scheduled for the second quarter of 2014; and
8. An update of the previously-used cost estimate of wind day-ahead forecast error based on PGE's wind integration study.

#### UE 262, UE 266 Proceedings

PGE's 2014 AUT (Schedule 125) was originally filed as part Advice No. 13-03/Docket UE 262, PGE's 2014 (test year) General Rate Case. On March 7, 2013, Commission Staff filed a motion to bifurcate Docket UE 262 in order to evaluate the power cost components in a separate docket. On March 11, 2013, the presiding administrative law judge issued a ruling creating Docket UE 266 for the purpose of bifurcating the issues related to PGE's NVPC and Schedule 125 updates from the general rate case.

Parties to Docket UE 266 included the Citizens' Utility Board of Oregon (CUB), the Industrial Customers of Northwest Utilities (ICNU), Noble Americas Energy Solutions LLC, the League of Oregon Cities, Renewable Northwest Project (RNP), Troutdale Energy Center LLC (TEC), Northwest Natural Gas Company, and PacifiCorp.

Staff, ICNU, RNP and CUB filed response testimony on May 21, 2013.

A settlement conference was held on June 5, 2013. Parties identified several issues regarding the power cost filing, which resulted in a stipulated agreement covering all issues. Specifically, the parties agreed to revise the power cost calculation by accounting for certain capacity contracts, expenses related to the Boardman biomass test burn, changes in WECC reserve margins, and costs for wind integration.

The Commission issued Order No. 13-280 on August 5, 2013, adopting the stipulation and ordering a \$4.5 million reduction in projected power cost in order to settle the issues.

The Annual Update Tariff includes five periodic updates which revise load and price forecasts and contracts as they are realized. Each change in parameters produces a revised net variable power cost by updating the MONET dispatch tool and running the model again for the test year. The five updates are discussed below.

### MONET Updates

After the initial AUT filing, PGE provided five updates to the power cost projection – one in April, July, and October, and two updates in November.

PGE's April update was filed on April 1, 2013, and included revised plant performance factors for forced outage rates. PGE reported a NVPC of \$641.2 million for this update.

On July 16, 2013, PGE filed the July MONET update which included contracts and forward price curves as of June 6, 2013. PGE's NVPC for the July update decreased approximately \$10.1 million due to a reduction in forecasted load and due to the stipulated power cost reduction of \$4.5 million.

On October 1, 2013, PGE filed the October MONET update. The revised NVPC totaled approximately \$628.2 million, reflecting a reduction of approximately \$2.9 million from the July MONET update. PGE claimed this reduction was primarily due to a decrease in wheeling rates, gas prices, and coal transportation costs.

PGE filed the first November MONET update on November 5, 2013. This update reflected the contracts and forward curves as of October 21, 2013. The effect of this update was to decrease NVPC by approximately \$5.2 million from the October update.

The final MONET update was filed on November 15, 2013, reflecting the final 2014 forward price curves. The final NVPC for 2014 was reported by PGE as \$621.7 million, a reduction of approximately \$1.29 million from the November 5 filing and a decrease of \$17.5 million from the initial filing. This is equivalent to a rate of \$33.07 per MWh, or a decrease of approximately \$1.25 per MWh from the initial NVPC filing.

### Effect of Docket UE 262/Order No. 13-459 and Advice No. 13-29

In a year when the company does not file a general rate case revision, the variance in power cost between actual cost and projected cost is recovered through a revision of Schedule 125. However, in a year that the general rate case and power cost update are both filed concurrently, the power cost variance for the test year is recovered through revisions in the standard cost-of-service schedules instead of through Schedule 125. As a result, in these GRC years Schedule 125 is reset to zero.

For calendar year 2014, the \$621.7 million in net variable power costs projected by PGE in Docket UE 266 will be collected through general rate schedule revisions as ordered by the Commission (Order No. 13-459) in the general rate case docket, Docket UE 262. The effect of Order No. 13-459 is to increase the Company's revenue requirement for 2014 by \$63.362 million, representing an overall rate increase of 3.8 percent. Overall, the revenue requirement adjustments will result in a bill increase of about 5.5 percent for residential customers and 3.4 percent for commercial and industrial customers.

As mentioned previously, if Advice 13-29 is approved, Schedule 125 will be reset to zero as of January 1, 2014.

**PROPOSED COMMISSION MOTION:**

The tariff sheets filed by Portland General Electric as Advice No. 13-29 be allowed to go into effect on January 1, 2014.