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August 28, 2007

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
550 Capitol Street NE, #215
PO Box 2148
Salem OR 97308-2148

Re: UE 192 – 2008 Annual Power Cost Update Tariff Filing

Attention Filing Center:

Enclosed for filing in the above-captioned docket is an original and five (5) copies of the Opening Brief of Portland General Electric Company in the above-captioned docket. This document is being filed electronically. Hard copies will be sent via postal mail.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Tingey", written in a cursive style.

DOUGLAS C. TINGEY

DCT:saa
Enclosures
cc: Service List-UE 192

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing **OPENING BRIEF OF PORTLAND GENERAL ELECTRIC COMPANY** to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class US Mail, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service.

Dated at Portland, Oregon, this 28th day of August 2007.



DOUGLAS C. TINGEY

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UE 192

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 192

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
2008 Annual Power Cost Update Tariff)
)
)
_____)

**OPENING BRIEF OF PORTLAND
GENERAL ELECTRIC COMPANY**

August 28, 2007

Pursuant to the order of the Administrative Law Judge, Portland General Electric Company (“PGE”) submits this brief.

I. BACKGROUND AND INTRODUCTION

This is the first power cost update under PGE’s Annual Power Cost Update tariff (“APCU”), Schedule 125. PGE proposed the APCU, and it was adopted in Docket UE 180, as a more limited power cost update than PGE’s RVM mechanism had been. After five years of annual updates under PGE’s RVM tariff, the APCU was designed to allow only very specific and limited updates to eliminate some of the contention that had been part of RVM dockets. In adopting the APCU, the UE 180 Order stated:

We accept PGE’s move to limit the number of model enhancements. Model changes or updates could be considered, not in the Annual Update process, but in a separate docket.

Order 07-015, p. 19. Schedule 125 delineates the only updates that can be made as follows:

The following updates will be made in each of the Annual Power Cost Update filings:

- Forced Outage Rates based on a four-year rolling average.
- Projected planned plant outages.
- Forward market prices for both gas and electricity.
- Projected loads.
- Contracts for the purchase or sale of power and fuel.
- Changes in hedges, options, and other financial instruments used to serve retail load.
- Transportation contracts.
- No other changes or updates will be made in the annual filings under this schedule.

PGE’s filing, with a small correction discussed below, conforms to the listed updates. However, other parties are suggesting additional changes that are not appropriate, and at least some of which go beyond the terms of the tariff.

II. CONTESTED ISSUES

There are four issues asserted by various parties that require a Commission decision:

A. Ancillary Services

Staff raises only one issue in this docket – whether Ancillary Services revenue should be updated in APCU proceedings.¹ Staff raises the issue only with respect to future APCU dockets. Staff does not propose any change to forecast 2008 Net Variable Power Costs because in its opinion the forecast of Ancillary Services revenue used in this docket “remains reasonable.” Staff/100/Galbraith/5.

PGE does not believe that Ancillary Services revenue should be updated in APCU proceedings. The level of Ancillary Services revenue was determined by the Commission in Docket UE 180. Specifically the Order said: “This results in an adjustment of approximately \$1.43 million. This adjustment is made to Other Revenues in revenue requirement.” Order 07-015, p. 16. This is not one of the updates set forth in Schedule 125 to be made in an APCU proceeding. Making such an update would also raise complications – it would require an update to Other Revenues outside of a general rate case. That too, is inappropriate.

Any differences between forecast Ancillary Services revenue, and actual Ancillary Services revenue, will flow into PGE’s power cost adjustment mechanism (“PCAM”) as directed by the Commission in Order 07-015 and be incorporated into PGE’s PCAM tariff, Schedule 126. Further the forecast of Ancillary Services revenue, along with all other costs and revenues, can be addressed in PGE’s next general rate case. An APCU proceeding is not the appropriate place to make such adjustments.

¹ As discussed below, Staff’s testimony addresses two issues raised by other parties. For both issues Staff recommends no adjustment to PGE’s filing.

B. Boardman Forced Outage Rate

In its net variable power cost (“NVPC”) forecast, PGE calculated the forced outage rate for the Boardman generating plant consistent with the Commission’s order in UE 180, Order 07-015. CUB, however, argues for use of a forced outage rate that does not comply with that Order.

Order 07-015 states:

We continue to believe that past performance is the best predictor of a plant’s outage rate. For this reason, we adhere to our long-standing practice of using actual plant outage rates to predict the future activity of that plant. In this case, we use the four-year rolling average for the Coyote Springs, Colstrip, and Beaver plants.

However, we recognize the extreme outage at Boardman in 2005. To account for that anomaly, we adjust the traditional four-year average calculation of Boardman’s “normal” forced outage rate by removing the hours in the November 18, 2005, through December 31, 2005, deferral period from the forced outage hours and the period used in the traditional calculation. *See* Staff/100, Galbraith/7. This is similar to the adjustment we made in PacifiCorp rate cases for the extreme outages [at] the Hunter facilities. *See id.* at Galbraith/7-8. In this case, inputting the adjusted rate into PGE’s MONET model results in a nearly \$4.6 million reduction to net variable power costs. *See id.* at Galbraith/7.

PGE calculated the four-year rolling average in this docket as directed in this Order.

PGE calculated 2005 the same as it was in UE 180, and 2006 was calculated consistently – the hours during the deferral period were removed from the forced outage rate and the year used in the calculation.

CUB’s argument, however, directly contradicts this Order. CUB argues that all of 2005 and 2006 should be removed from the four-year rolling average, and replaced with years 2001 and 2002. The Commission stated that “we adhere to our long-standing practice of using actual plant outage rates to predict the future activity of that plant.” In Order 07-015 the Commission expressly determined how this unusual outage at Boardman should be handled in computing the four-year rolling average. CUB’s approach, the removal of 2005 and 2006 in their entirety, is

not consistent with the long-standing practice, and would have the Commission issue inconsistent orders for the very same outage and the very same issue.

CUB's approach appears results driven. Their position is simply that the outage rates are too high in 2005 and 2006. CUB/100/Brown/1-2, 7. And CUB's solution is to incorporate two years with abnormally low forced outages – two years that have already been included in the four-year rolling average in numerous past ratemaking proceedings. That is not appropriate ratemaking, nor would it lead to fair, just and reasonable rates.

CUB's approach is also inconsistent with the terms of Schedule 125. The tariff states that forced outages rates are to be based on a four-year rolling average – and a *rolling* average does not include ignoring two recent years and substituting two earlier years.²

Staff also disagrees with CUB's forced outage proposal. Staff's testimony is brief and to the point:

In this case PGE has adjusted the Boardman equivalent forced outage rate consistent with the Commission resolution in Order No. 07-015. *See* PGE/100, Tooman-Tinker-Schue/6-8. The Commission's upcoming investigation into the appropriate methodology for determining 'normal' equivalent forced outage rates is the appropriate docket to revisit the use of NERC data, or other methods, for determining forced outage rates.

Staff/100/Galbraith/4.

CUB's proposal is inconsistent with the Commission's recent Order, and the tariff being implemented in this docket, and should not be adopted.

C. Cold Snap Capacity Contract

ICNU proposes to completely eliminate from NVPC the demand charge for a capacity contract called the Cold Snap contract. Based on a fatally flawed analysis, ICNU claims that the

² As shown in PGE's testimony and work papers, CUB has also incorrectly applied the four-year average to its chosen years. *See* PGE/300, Tooman-Tinker-Schue/8.

Cold Snap contract has an extrinsic value many times the annual demand charge. This is the same contract that was addressed in UE 180. This is the same contract about which ICNU witness Falkenberg stated: “I performed an extrinsic value analysis but **found no extrinsic value.**” UE 180, ICNU/103 at 10, lines 11-12, emphasis added, *quoted* at PGE/300/Tooman-Tinker-Schue/10. Yet ICNU has now submitted, again in sworn testimony, a different, inaccurate and skewed extrinsic value analysis. ICNU’s claims in this docket lack credibility.

The Cold Snap contract was addressed in UE 180. There the Commission adopted an extrinsic value adjustment for the Super Peak contract and stated: “The record contains evidence on the extrinsic value of the Super Peak contract, but not the Cold Snap contract.” Order 07-015, p. 13. This does not indicate there was a lack of evidence as to the extrinsic value of the Cold Snap contract. There was evidence, including from ICNU and Staff, that the Cold Snap contract had no extrinsic value. The Order recognizes that the evidence presented was just that – there is no extrinsic value for the Cold Snap contract. ICNU would now like to re-litigate that issue, and change its testimony in the process. That should not be allowed.

In addition to being completely contradictory to ICNU’s previous testimony, ICNU’s proposal also violates the terms of Schedule 125. Schedule 125 allows updates for “contracts for the purchase and sale of electric power and fuel.” A previously known and expected update to the contractual demand charge, to be paid in 2008, is appropriate and allowable. PGE did that in its filing. ICNU’s proposal goes far beyond this in an apparent attempt to re-litigating issues decided in UE 180. ICNU’s proposal is not consistent with the tariff. PGE would have liked to re-litigate issues, including the extrinsic value estimate of its Super-Peak contract. However, that would not be appropriate here and PGE has made no such proposal.

ICNU estimates an extrinsic value of the Cold Snap contract of more than \$12 million. Yet the demand charge of the contract is a small fraction of that amount. On its face, ICNU's analysis is flawed and fundamentally unreasonable. What rational party would enter into a contract worth \$12 million and charge only a small fraction? Further, ICNU presents no evidence that market conditions have changed in some fundamental manner to account for such a large increase in value relative to when PGE signed this contract in 2004.

ICNU also testified in UE 180 that PGE's Super Peak capacity contract had an extrinsic value of \$1.4 million. PGE/300/Tooman-Tinker-Schue/12. That contract has a heat rate approximately 2,000 MMbtu/MWh lower than the Cold Snap contract. *Id.* Yet now ICNU testifies that this higher heat rate Cold Snap contract has an extrinsic value of \$12 million. Again, this does not meet a fundamental reasonableness test.

The results driven nature of ICNU's proposal is also made obvious by its choice of the period of time and prices used in its extrinsic value analysis. The only way ICNU could derive such a number was to use prices from the western energy crisis of 2000-2001. The only time the Cold Snap contract shows any extrinsic value in ICNU's analysis is from November 2000 to April 2001. *Id.* at 12-13. At all other times there is no extrinsic value. *Id.* There is simply no valid argument that this is an appropriate time period for extrinsic value analysis to be used in 2008 power costs. It was a very unusual event, hopefully never to be repeated. It is certainly not the type of event that should be built into ongoing rates – particularly seven years after the fact. Further, it is for just such an unusual event that the Commission approved PGE's PCAM. ICNU also ignores more recent data, as it would not produce an extrinsic value in its analysis (or more precisely an extrinsic value of zero). ICNU also ignores test year forecasts of power costs upon which all other aspects of NVPC are being set in this docket.

ICNU's analysis is also fundamentally flawed in its dispatch of the Cold Snap Contract. In its analysis ICNU dispatches the contract ten times more than that allowed under the contract. PGE/300/Tooman-Tinker-Schue/13-14. ICNU's "analysis" deserves no credence.

Staff has also addressed the issue of extrinsic value of the Cold Snap contract in its testimony in this docket. After noting that ICNU witness Falkenberg previously testified that he had performed an extrinsic value analysis of the Cold Snap contract "but found no extrinsic value" staff continued:

In direct testimony on behalf of Commission Staff, Bill Wordley indicated that he directly used PGE's 2004 RFP estimates of the extrinsic value of the Super Peak and Cold Snap Contracts. *See* UE 180/UE 181/UE 184, Staff/200, Wordley/12. PGE's RFP evaluation of the Cold Snap contract found no extrinsic value. *See* UE 180/UE 181/UE 184, Staff/204, Wordley/1 (Confidential); and UE 180/UE 181/UE 184, PGE/1900, Tinker-Schue-Drennan/35-36. Staff believes the Commission resolved the issue of the extrinsic value of the Cold Snap contract based on this evidence. Any further adjustment to PGE's power costs to account for the extrinsic value of purchased power agreements or generating resources should be made after the Commission's upcoming stochastic modeling investigation.

Staff/100/Galbraith/3. As stated by Staff, this issue has been addressed by the Commission and should not be addressed again here.

But just because the Cold Snap contract does not have extrinsic value, it is still an appropriate part of a power cost portfolio. As the UE 180 order stated, "the costs of the contracts should be included in PGE's test year power costs. The contracts assure supply for peak loads and emergency events, and therefore provide service to customers. For this reason we include both contracts in rates." Order 07-015, p. 13. In fact, if there is anything the extrinsic value analysis shows about the Cold Snap contract it is that its value is just what it was purchased for – for reliability and to assure supply in extreme events.

ICNU's proposed extrinsic value adjustment is inconsistent with the UE 180 order, Schedule 125, and is simply not credible. It is disappointing that ICNU is causing the

Commission, PGE and other parties to expend resources dealing with such faulty analysis. The adjustment should not be adopted.

D. Updating Coal Related Costs in this Docket

ICNU has one other proposed adjustment to PGE's filed NVPC. ICNU states that certain transportation related costs should not be updated in the APCU. Specifically ICNU lists Boardman Rail Car Mileage Tax, Boardman Coal Sampling, Boardman Rail Car lease, Boardman Rail Car Maintenance, Boardman Trainset Storage Fee, and Boardman Coal Car Depreciation. ICNU recognizes these as legitimate expenses, but argues that they are not eligible for update under Schedule 125.

While it was PGE's intention that these costs be included in fuel costs, PGE agrees that a narrow reading of Schedule 125 would not allow an update to these costs. As a result PGE will remove these costs changes in future Monet runs in this docket. This will decrease NVPC by about \$173,000 relative to PGE's initial filing in April. The inconsistency in ICNU's arguments should be noted, however. While for its other proposed adjustments ICNU would ignore, or read liberally, the limited updates allowed under Schedule 125, here ICNU argues for a very narrow, literal reading. ICNU's arguments are outcome based, and should not be given any weight.

III. CONCLUSION

Schedule 125 was designed to allow only very limited and specific updates to power costs. One of the purposes of limiting the updates was to streamline the process and avoid disputes in each annual update. PGE has filed projected NVPC consistent with the tariff. ICNU and CUB have, however, raised issues that go beyond the tariff and Commission orders. The proposals are also not supported by the evidence or sound ratemaking theory. Rejection of the proposals will result in proper rates, and also help to discourage such arguments in future APCU

proceedings. With a correction to certain fuel transportation costs, the NVPC methodology filed by PGE and supported by Staff should be implemented.

DATED: August 28th, 2007.

Respectfully submitted,

/s/ Douglas C. Tingey

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