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Douglas C. Tingey
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September 18, 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 Closing 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 black ink, appearing to read "D. Tingey", is written over a light gray background.

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 **CLOSING 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 18th day of September 2007.



DOUGLAS C. TINGEY

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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)
)
)
_____)

**CLOSING BRIEF OF
PORTLAND GENERAL ELECTRIC
COMPANY**

September 18, 2007

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

I. INTRODUCTION

This docket is the implementation of PGE’s Annual Power Cost Update tariff (“APCU”), Schedule 125 that was approved in PGE’s last general rate case, Docket UE 180/181/184 (“UE 180”), Order No. 07-015. Pursuant to that Schedule, only specific updates are allowed. The list was provided in PGE’s opening brief, and is included again here to provide context to the discussion of the arguments of the other parties. Schedule 125 states:

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.

The list is exclusive, and specifically states that “no other changes or updates will be made.”

PGE has adhered to this tariff provision. Other parties, however, are advocating adjustments that go beyond the tariff terms.

II. CONTESTED ISSUES

The four issues asserted by various parties are addressed below:

A. Ancillary Services

This proposed adjustment goes beyond the terms of the tariff. The issue was raised by Staff, though Staff does not propose any adjustment. The amount of ancillary services revenue

to include in rates was a disputed issue decided by the Commission in UE 180. In UE 180 the Commission made an adjustment of \$1.43 million to the account Other Revenues. Order 07-015, p. 16. No changes in ancillary services revenue, or the category of Other Revenue, are allowed in Schedule 125.

Staff recognizes that since no adjustment is proposed in this docket, the resolution of this issue will have no impact on PGE's rates in 2008. Staff asks the Commission to clarify that a forecast of ancillary services revenue should be part of PGE's Annual Update proceedings. However, it appears that Staff is asking for more than clarification – Staff is asking for a modification of the list of allowed adjustments in Schedule 125. That is not appropriate in this proceeding.

Staff also claims that PGE's proposed treatment of ancillary services creates an inconsistency. Staff's position is based on an incorrect premise. In its opening brief, Staff claimed that "Under PGE's proposal, the forecasted costs associated with the ancillary services sales would be updated every year in the Annual Update Tariff and the variation between the forecasted and actual costs captured in the Annual Variance Tariff." Staff Opening Brief, p. 3. The first half of that sentence is not correct. Forecast costs associated with ancillary services are not updated in this docket, and neither are forecast revenues. There is no inconsistency because neither are appropriate updates in this Schedule 125 Annual Update Tariff proceeding.¹

It is correct, however, that any variations in ancillary services revenue are treated in PGE's tariffs. The Commission's Order in UE 180 recognized that any difference between the ancillary services revenue projected in that docket and actual ancillary services revenue will flow

¹ This claim by Staff that costs are being updated also does not appear in Staff's testimony or elsewhere.

through PGE's power cost adjustment mechanism, Schedule 126. Any variations will indeed be captured by that mechanism, and handled as set forth in that tariff schedule.²

B. Boardman Forced Outage Rate

CUB continues to urge the Commission to adopt an adjustment that would be inconsistent with the Commission's decision in UE 180. The Boardman outage, and the application of the four-year rolling average for forced outages, were addressed at length in that docket. The Commission decided:

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.

Order 07-015, p. 15.

PGE followed that Order and calculated the four-year rolling average in this docket accordingly. PGE calculated the outage rate for 2005 as the Commission ordered it to be done in UE 180, and 2006 was calculated consistently – the hours during the deferral period were removed from the forced outage rate calculation.

There is no dispute that the Boardman outage was unusual. The Commission's granting of a deferral of excess power costs for a portion of the outage is good evidence of that. And the Commission has decided how it should be dealt with in calculating the four-year rolling outage

² Staff did explore the expected level of ancillary services revenue in this docket. Staff concluded that "the forecast of \$1.4 million remains reasonable." Staff/100/Galbraith/5.

rate. The UE 180 Order even pointed out that this approach is similar to how an extreme outage of a PacifiCorp plant was treated. The length and impact of the Boardman outage is not new information. The outage had ended and the plant had been back in operation for about six months when the UE 180 order was issued.

In its brief CUB even states: “We agree with the Commission in its decision regarding the 2005 portion of the Boardman deferral period, and we agree with PGE that the second outage period should be removed.” CUB Opening Brief, p. 9. Despite saying this, however, CUB continues to propose removal of 2005 in its entirety from the four-year average calculation. We are at a loss as to how that constitutes agreement with the Commission’s decision. CUB is attempting to relitigate a decided issue. If the Commission were to do as suggested by CUB it would enter conflicting orders regarding how the very same outage should be treated in the four-year rolling average. That would not be appropriate.

In its testimony, Staff stated that PGE has “adjusted the Boardman equivalent forced outage rate consistent with the Commission resolution in Order No. 07-015.” Staff/100/Galbraith/4. Staff concluded that the Commission’s upcoming investigation into forced outage rates is the appropriate docket to revisit any issues. *Id.* Staff’s testimony voiced no concern about the calculations or the application of the average as calculated by PGE. Yet, Staff’s brief, for the first time in this docket, expresses some concerns of Staff about the Boardman forced outage rate. Staff Opening Brief, pp. 1-2. While the brief concluded that “staff has chosen not to advocate that the Commission address these issues in this docket”, (*Id.* at 2) it is disconcerting to see claims and issues raised for the first time in a party’s brief. No adjustment is proposed by Staff, and the extraneous comments in Staff’s brief should be ignored.

C. Cold Snap Capacity Contract

ICNU proposes to eliminate from NVPC all of the demand charge for a capacity contract called the Cold Snap contract. As discussed in PGE's testimony and opening brief, ICNU's proposal:

1. Is contrary to the Commission's Order in UE 180;
2. Directly contradicts ICNU's testimony in UE 180 that this contract had no extrinsic value;
3. Violates the terms of Schedule 125;
4. Is based on flawed and fundamentally unreasonable analysis that derives a claimed extrinsic value of a multiple of the contract price;
5. Is based on an analysis that does not use current power market prices;
6. Is based on an analysis that dispatches the contract ten times more than allowed under the contract;
7. Is based on an analysis that only produces extrinsic value when the very unusual power prices from the 2001 western energy crisis are used; and
8. Is based on an analysis that produces a claimed extrinsic value over eight times as much as the Super Peak contract, even though the Cold Snap contract has a much higher heat rate.

In attempting to support this proposal in its opening brief, ICNU has also misconstrued the record in this case, and the Commission's decision in UE 180. The UE 180 order states:

We agree that 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. However, even though we reject an overall extrinsic value adjustment for PGE's resources, we believe the extrinsic value of these two contracts should be recognized in test year power costs. The Super Peak and Cold Snap contracts can be distinguished from the Company's other

resources because they do not dispatch at all in the MONET run used to estimate test year power costs. Without an extrinsic value adjustment, customer rates would include all of the costs, and none of the benefits of the contracts. The record contains evidence on the extrinsic value of the Super Peak contract, but not the Cold Snap contract. Therefore, we accept ICNU's alternative proposal to include the extrinsic value of the Super Peak contract in rates, and adjust PGE's proposed test year power costs by \$1.4 million.

Order 07-015, p. 13. ICNU apparently construes this as stating that no adjustment was made for the Cold Snap contract because no evidence was presented regarding the extrinsic value of the Cold Snap contract.³ That is certainly not the case, and not what the Commission found. There was evidence, including that from ICNU's witness Mr. Falkenberg, who stated regarding the Cold Snap contract: "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 in UE 192. The extrinsic value of the Cold Snap contract was specifically addressed. The evidence was that there was no extrinsic value for this contract. The issue has been decided. ICNU's attempt to relitigate the issue should not be allowed.

ICNU attempts to distinguish its conclusion in its UE 180 testimony that the Cold Snap contract has no extrinsic value by claiming that it "presented testimony based on the current information at that time that the cold snap agreement had no extrinsic value." Opening Brief of ICNU, p. 4. Such a statement could lead one to believe that more current information was used in this docket, but that is incorrect. Instead, Mr. Falkenberg used older power cost data, from the 2001 western power crisis, to attempt to forecast extrinsic value in 2008. This is not a case of new information coming to light.

Nor is ICNU's adjustment at all consistent with the Commission's decision about the Super Peak contract in UE 180. In that docket the Commission made an adjustment based on the

³ It should also be noted that ICNU's position is inconsistent with this Order in a very fundamental way. The Order states that "the costs of the contracts should be included in PGE's test year power costs." Order 07-015, p. 13. Yet ICNU's proposed adjustment would remove the costs of the Cold Snap contract from test year power costs.

analysis PGE did to rank the capacity contract bids. The comparable analysis of the Cold Snap contract showed an extrinsic value for the Cold Snap contract of less than zero.

PGE/300/Tinker-Tooman-Schue/10. *See also* ICNU/204. So, even if an approach using the same method as that used for the Super Peak contract were to be used, there would be no adjustment for the Cold Snap contract.

In its brief ICNU also, for the first time, attempts to support its adjustment by claiming that its analysis “reflects the Company’s expectations at the time *it negotiated* the cold snap agreement.” Opening Brief of ICNU at 7 (emphasis in original). This is fundamentally wrong on several levels. First, there is nothing in the record to support this assertion, nor could there be. For that reason alone, the Commission should disregard ICNU’s arguments. Further, it is absurd to think that PGE expected an annual extrinsic value of several times the annual demand charge. If that were the case, no rational seller would have entered into the contract with PGE. Further, if that were the case, PGE could have theoretically made huge profits by entering into this and many more such contracts. That is not the case.

ICNU’s reliance on its claimed knowledge of PGE’s expectations when it entered into the contract is also fundamentally flawed from a ratemaking standpoint. Whatever benefit PGE expected to receive from the contract when it was entered in 2004 is irrelevant to actual costs to be incurred in 2008. This docket is to set a power cost forecast for 2008. To do that, it is the costs that currently are expected to be incurred in 2008 that are relevant, not projections or expectations from years ago. If ICNU’s “expectations” theory were valid, virtually all power (or other) contracts would be subject to adjustment.

As set forth above, ICNU’s analysis is fundamentally flawed. In its opening brief, ICNU attempts to minimize this by characterizing one of these flaws, the fact that in his analysis Mr.

Falkenberg dispatched the Cold Snap contract ten times more than allowed under the contract, as a “red-herring”. Opening Brief of ICNU, p. 10. Inflating the number of hours by a factor of ten is not a red herring, it is, at best, faulty analysis. Curiously ICNU attempts to excuse this by pointing to a PGE data response, ICNU/205. That exhibit itself shows that using ICNU’s analysis, but correcting for this and other data errors, result is an extrinsic value of \$0 for the Cold Snap contract.

Regardless of the flaws in ICNU’s analysis, the request to remove the cost of this contract from power costs is fundamentally unfair in any event. If the contract does have extrinsic value of \$12 million, as ICNU claims, or any other amount, then that amount will flow through power costs in PGE’s PCA mechanism. It would be fundamentally unfair to exclude the contract from rates and at the same time have customers receive the benefit of that reduction in power costs.

ICNU’s claims ignore the basic reason PGE entered into this contract. This is a capacity contract, purchased to assure supply for peak loads and emergency events. PGE’s Commission-acknowledged least cost plan (LC 33, Order 04-375) called for the acquisition of 400MW of capacity resources. This contract was entered to comply with that plan. The contract would dispatch only under extreme conditions, not normal conditions. Its value is in helping to ensure reliable service to customers in unusual situations. It is an appropriate test year power cost.

ICNU’s proposed adjustment has no credible support and should not be adopted.

D. Updating Coal Related Costs in this Docket

As discussed in PGE’s opening brief, ICNU proposed certain adjustments for transportation related costs and PGE has agreed to make those adjustments. ICNU has not addressed this issue in its brief, so PGE will not address it further here.

II. CONCLUSION

Schedule 125 allows only very limited and specific updates to power costs. The 2008 projected NVPC filed by PGE is consistent with the tariff. ICNU and CUB's proposed adjustments, however, go beyond the tariff and Commission orders. They are also not supported by the evidence or sound ratemaking theory. The proposed adjustments should be rejected and the NVPC methodology filed by PGE and supported by Staff should be implemented.

DATED: September 18th, 2007.

Respectfully submitted,

/s/ DOUGLAS C. TINGEY

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