BEFORE THE
PUBLIC UTILITY COMMISSION
OF
OREGON

UE 192

In the Matter of the **PORTLAND GENERAL ELECTRIC COMPANY** **2008 Annual Power Cost Update Tariff Filing**	**STAFF OPENING BRIEF**

August 28, 2007

In Docket Nos. UE 180/UE181/UE 184, the Commission adopted a new power cost recovery framework for Portland General Electric Company ("PGE"). Under this framework the Commission will reset PGE's base net variable power costs ("NVPC") each January 1st. The Commission will allow PGE to recover actual NVPC that exceed those included in the base rates, or return to customers the NVPC in base rates that exceed actual NVPC, subject to the sharing outlined in Order No. 07-015. The purpose of this docket is to determine PGE's base NVPC for 2008.

Forced outage rate and extrinsic value of capacity resources.

PGE's recommended 2008 NVPC is based on its power cost forecasting model, MONET. Staff believes that PGE's NVPC forecast is flawed because it includes an unrealistic forced outage rate for PGE's Boardman plant and fails to account for the extrinsic value of capacity resources. In Docket Nos. UE 180/UE181/UE 184, the Commission acknowledged that PGE's power cost model understates the extrinsic value of PGE's capacity resources. The Commission also acknowledged that there is potential for extremely long forced outages to skew the forced outage rates. However, the Commission did not adopt staff's primary recommendations for addressing the flaws, but rather indicated to the parties it intended to examine these issues in more generalized ways:

Specifically, with respect to the extrinsic value issue, the Commission stated:

> We believe there is inherent extrinsic value to capacity resources that are not counted in the MONET model runs. However, we are also persuaded by the record that the current MONET model underestimates NVPC. Any consideration of the extrinsic value must take into account the inherent bias in the MONET model, and to only consider one factor would not be reasonable. Therefore, we make no adjustments for the extrinsic value of PGE's generating plants and power purchase contracts, except as discussed below for the Super Peak contract.
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> Staff recommends PGE use stochastic modeling in the future to model the optionality of its resources, [which] would eliminate the need for future extrinsic value adjustments. PGE opposes this recommendation. We concur with Staff that stochastic modeling has potential benefits, in terms of improved power cost forecasting. Therefore, we urge PGE to

> develop stochastic modeling to develop its NVPC forecast. PGE should submit a report on the feasibility of using stochastic modeling in the Annual Update by September 1, 2007.[1]

With respect to the forced outage rate issue, the Commission modified PGE's forced outage rate for the Boardman plant by removing a portion of the extended 2005-06 outage from the calculation and instructed staff to open a generic docket to determine the best method for forecasting forced outages.[2]

In light of the Commission's previous decisions regarding the flaws in PGE's NVPC forecast relating to extrinsic value of capacity resources and forced outage rates, staff has chosen not to advocate that the Commission address these issues in this docket. However, staff does continue to advocate that the Commission address these issues in the long-term, which the Commission already appears to be doing.

Ancillary service sales revenues.

In Docket No. UE 180, staff explained to the Commission that PGE included costs associated with the sale of ancillary services in its rates, but that PGE did not include the revenue from these sales. Staff argued that this practice caused a mismatch of costs and benefits in PGE's rates and recommended that the Commission require PGE to include its revenue from ancillary service sales revenue in its revenue requirement.[3]

The Commission agreed it was appropriate to include the revenues for ancillary services in PGE's revenue requirement and adjusted PGE's "Other Revenues" in order to capture the revenue from the sale of ancillary services. Responding to PGE's assertion that it is difficult to forecast the revenues from ancillary services sales, the Commission ordered that the difference in revenues should also be incorporated in calculation of the "annual PCAM."[4]

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[1] Order No. 07-015 at 12.
[2] Order No. 07-015 at 15.
[3] *See* Order No. 07-015 at 16.
[4] Order No. 07-015 at 16.

PGE has addressed the mismatch that staff identified in Docket No. UE 180. However, PGE's treatment of the revenues in its Annual Update and Annual Variance tariffs is flawed because PGE does not forecast the appropriate level of revenues for purposes of setting base NVPC. Accordingly, when PGE is allowed to capture the difference between actual revenues and those in the base NVPC, the difference will be between the revenues set in the last general rate case, and not between actual revenues and revenues that are set in the NVPC base.

PGE notes that Order No. 07-015 directs that net ancillary service revenues be included in Other Revenues, which are not subject to the Annual Update Tariff. PGE recommends that the net ancillary service revenue forecast of $1.4 million approved by the Commission in Order No. 07-015 remain in place until the next general rate case, but that differences between this forecast and actual revenues should be nonetheless be subject to the Annual Variance Tariff. [5]

PGE's proposed treatment creates an inconsistency, which is precisely the problem the Commission addressed by ordering PGE to include the sales revenue in the PCAM calculation. 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. However, under PGE's proposal, the revenues from these sales would not be updated each year. Instead, the Annual Variance Tariff would capture the difference between actual revenues and the revenues forecasted in PGE's last general rate case. It is inappropriate to update the costs associated with these sales each year, but not update the revenues.

The correct resolution of this issue should not turn on the fact that the Commission has previously directed PGE to include ancillary service sales revenue in

[5] UE 192/PGE/300, Tooman-Tinker-Schue/4.

“Other Revenues” for purposes of determining revenue requirement. Instead, resolution should turn on an analysis of what is the appropriate treatment of both the costs and revenues associated with ancillary services sales. As discussed above, it is appropriate to treat revenues and costs consistently in both the Annual Update—by updating the forecast for revenues as well as costs – and the Annual Variance tariffs.

As noted in both staff’s direct testimony and in PGE’s rebuttal testimony, the resolution of this issue will have no practical consequence on PGE’s rates in 2008. This is because no party recommends that the Commission require PGE to update the ancillary service revenue forecast that was used for setting the UE 180 rates. However, the Commission’s treatment of the revenues could affect PGE’s rates in the future. Accordingly, staff asks the Commission to clarify in this docket whether PGE should, in the future, update its ancillary service revenue forecast in the Annual Update tariff.

DATED this 28th day of August 2007.

Respectfully submitted,

HARDY MYERS
Attorney General

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CERTIFICATE OF SERVICE

I certify that on August 28, 2007, I served the foregoing upon all parties of record in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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