

OPUC Shrinks PGE Rate Request

by Bend Weekly News Sources

The Oregon Public Utility Commission cut \$49.4 million from Portland General Electric's (PGE) request to increase rates Friday. The request sought to recover costs for general expenses and for a new power plant. As a result, customers will see overall rates go up by 1.3%, when rates are fully phased in, instead of the 4.3% PGE had requested. Customer rates will be adjusted twice. Effective January 14 overall rates will drop by 1.4%. In early March customer rates will rise by 2.8% to begin recovering the cost of the new \$300 million Port Westward generation plant. PGE cannot begin recovering the cost of the power plant in rates until it actually begins generating energy. The combined effect is an overall increase of 1.3%. "We balanced the need to provide service at a reasonable cost to customers against having a flexible utility that can meet growing energy demands of their customers," Commission Chairman Lee Beyer said. "And, we accomplished this at a significantly lower cost to customers than the utility originally asked for. These rates include bringing the new Port Westward gas plant on-line, which will generate electricity for years to come. The new plant will help reduce PGE's exposure to buying electricity on the wholesale market." The average residential customer monthly bill will go up about 48 cents from \$88.81 to \$89.29 based on using a 1000 KWh of energy. Commercial and Industrial and commercial customers will see rates change by approximately 1.5% and 2.7% respectively when rates are fully implemented. The Commission, working with staff and customer groups such as the Citizens' Utility Board, Industrial Customers of Northwest Utilities, the City of Portland, and others, trimmed costs from several areas including profit, also known as the authorized rate of return, Operating and Maintenance expenses, Administrative and General expenses, and the cost of buying energy from other wholesale producers. It is estimated that Port Westward, located near Clatskanie, will generate enough energy to meet the needs of approximately 300,000 households a year. The plant is expected to come on-line in March. If Port Westward is significantly delayed, the Commission may examine costs to determine if rates should be adjusted further. The decision allows PGE to adjust rates each year either up or down based on changes in the forecast power costs. The Commission also established a Power Cost Adjustment Mechanism (PCAM) to address the differences between projected and actual costs. The Commission modified PGE's request, so PGE will absorb a significant amount of the power cost variation before sharing any of it with customers. Furthermore, PGE won't be able to recover any excess power costs if earnings remain in a reasonable range. This is PGE's first general rate case since 2001. A general rate case entails a thorough review of all a utility's costs including power costs, salaries, insurance, taxes, pensions, and financing expenses. Highlights of the order include:

Reduction of PGE's requested rate increase of \$49.4 million

Combined rate effect "Overall Increase of 1.34%

Capital Structure 50% equity 50% debt

Removed costs associated with PGE's preferred stock

Reduced cost of debt partly to remove harmful effects of Enron ownership to 6.48% from requested 6.73%

Cost of Equity, return to shareholders, 10.1% instead of 10.75% PGE requested

Overall Return 8.29% instead of 8.87% PGE requested

Annual Power Cost Adjustment Framework

Portland General Electric serves about 800,000 customers in Oregon.

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