

ENTERED April 8, 1982

## BEFORE THE PUBLIC UTILITY COMMISSIONER

OF OREGON

UF 3796

In the Matter of Revised Tariff     )  
Schedules for Electric Service     )  
in the State of Oregon filed by     )  
PORTLAND GENERAL ELECTRIC COMPANY.)

SUPPLEMENTAL  
ORDER

By this order I am authorizing Portland General Electric Company (PGE) to increase its rates by 8.6 percent. This is an interim increase, pending disposition of the company's request for a general rate increase.

At the same time, I am signaling to the company my intention to impose in my final order in this case stringent new requirements, including write-off of its investment in the Pebble Springs nuclear power project and a reduction in controllable expenses.

On February 23, 1982, the company requested an increase of \$69.2 million, or 13.5 percent, to be effective March 25, 1982. I am granting only an interim increase of \$51.6 million, or 8.6 percent, and will not permit it to become effective until May 1, 1982.

The increase for residential and small farm customers will be less because of additional credits to be received by PGE through its residential exchange agreement with the Bonneville Power Administration under the Regional Power Act.

The interim increase is granted as a result of my review of exhibits filed by PGE. The company requested an interim increase of \$53.4 million, or 8.9 percent. I found that the company has made a prima facie showing that an increase in revenue of \$51.6 million is necessary to continue to provide adequate electric service to the public. The amount proposed to be recovered from ratepayers is \$40.8 million, inasmuch as the company anticipates receiving an additional \$10.8 million from the residential exchange agreement. Even with the interim increase, PGE's return on equity will be less than the 16.25 percent return found reasonable in the April, 1981 Touche, Ross & Co. Report.

The rate spread accompanying this interim increase should not materially change the revenue relationships between

customer classes or between the revenues derived from demand charges and energy charges. ORS 757.210(5).

A hearing will be held by my Proceedings Division on the overall increase sought by the company. A prehearing conference has been scheduled for April 12. If any part of the interim increase is found, during the hearing, to be unwarranted, the company has agreed to provide for refunds.

Study to Reduce Expenses by 10 Percent

I am approving this increase for PGE reluctantly. The request for a rate increase has hit Oregonians at a poor time. A depressed timber industry, severe unemployment, a cutback of governmental benefits to those in need, and continuing high interest rates have combined to cut into consumers' budgets. They have sacrificed, and PGE must sacrifice.

In the course of the public hearings, I will require the company to show why it cannot absorb some or all of the additional increase it requests. As part of this process, I will require the company to show why it cannot reduce controllable expenses by 10 percent over the next year.

I have heard appeals from the public at large urging that I not grant an increase of any kind to Portland General Electric Company. I cannot fully respond to that appeal. Like so many other businesses, PGE must meet costs over which it has no control, such as the ever-increasing prices for transportation of coal and for other goods it must have to conduct its business. The company is dramatically and adversely affected by high interest rates it must pay on new debt.

Under the law, investor-owned utilities are entitled to have an opportunity to earn a reasonable return on their investments. ORS 757.210(1). The Public Utility Commissioner may not legally deny them that opportunity. [See Federal Power Commission v. Hope Natural Gas Co., 320 US 591 (1944).]

The company's investment in plant and equipment may be fixed, and the return required by the market is beyond the company's control. However, I believe there are areas where PGE might reduce its revenue requirement by cutting back on expenses. Therefore, PGE should be required to produce, by April 23, 1982, exhibits and other evidence showing the effect of a 10 percent reduction in controllable expenses on its revenue requirement, and to show why it cannot absorb the remainder of the increase sought in this case. If the company feels that some costs are not controllable, it must explain why, to my satisfaction.

Write-Off of Investment in Pebble Springs

While I cannot deny investors an opportunity to earn a reasonable return on their investments, I have the responsibility and legal authority to ensure, on behalf of consumers, that these utilities operate in a prudent manner. Consequently, it is my intention to require, in a final order I will issue in this case, that PGE write off its investment in the proposed Pebble Springs nuclear power plant.

Circumstances have created a significant financial exposure for stockholders and a potential liability for rate-payers. The company must face up to the fact that Pebble Springs is a "dry hole." It will not be built in this decade, and perhaps never. It would be fruitless for the company to continue to pursue this project in light of present circumstances.

The company and other parties to this case will have a full opportunity to try to persuade me that Pebble Springs should not be abandoned. They face a heavy burden. Pebble Springs has not been licensed by either the State of Oregon or the federal Nuclear Regulatory Commission. Two licensed plants in this region--Washington Public Power Supply System (WPPSS) plant Nos. 4 and 5--have been terminated by their sponsor. This is partly due to financial conditions. But, it also is due to smaller projected demand for electricity.

Investors in Pebble Springs must accept the truth and get out before the cost of getting out becomes worse. To compound the problem would be an enormous mistake.

I warned PGE two years ago that it does not seem realistic to expect that the Pebble Springs plant would be constructed. In an order signed January 14, 1980, I commented on the high risk confronting a utility, such as PGE, when it attempts to bring new power resources into service in today's political, economic, environmental, financial, and social climate. Recognizing this, I determined that the increased risk warranted granting the company an opportunity to earn on its investments at a higher rate than before. But at the same time I rebuked the company for not taking steps to resolve the Pebble Springs dilemma.

I am of the opinion that PGE may share my view, now. In the last several months the company has engaged in creative financing to improve its ability to absorb the costs of writing off the plant. Under the federal Economic Recovery Tax Act it has amassed approximately \$10.6 million by accelerating the receipt of tax benefits through the "Safe Harbor" leasing provision of that Act. The company also anticipates retiring some of its outstanding debt through an exchange for equity,

which should result in a substantial one-time gain. PGE stockholders would best be served by using these funds to temper the impact of retiring the investment in Pebble Springs.

#### Refunds to Occupants of Multifamily Residential Housing

On October 1, 1981, credits for residential and small farm customers of investor-owned utilities began flowing from the Bonneville Power Administration through an exchange of power. This had the impact of lowering the cost of electricity to those customers of PGE by 27.5 percent.

To encourage continued electric energy conservation, PGE and other utilities filed inverted rate structures. Those residential consumers using the least amounts of electricity within each dwelling class obtained the major portion of the benefits. Because studies show that average electricity use by persons living in multifamily units is less than use by those in single-family dwellings, separate rate structures for the two classes of customer were filed by PGE. From a technical, overall standpoint the decision was logical. However, on a case-by-case basis there were both real and perceived inequities.

Last month PGE filed new tariffs to make the rate structure for the two classes identical. Requests then were made to me by some residents of multifamily units for refunds of the difference between what they had been charged and what they would have been charged had the single rate structure been in effect beginning October 1.

I pointed out that I could not order a refund. The Public Utility Commissioner is prohibited from retroactive ratemaking unless it is provided for by law or under agreement with the utility. There is no legal basis for a refund in this case, and there was no agreement with PGE for a refund.

However, at my request PGE considered the issue and has concluded that refunds should be made as a matter of fairness. It was represented to me that refunds to customers would total approximately \$500,000. The company will make those refunds from present resources.

#### Normalization of Tax Depreciation, Investment Tax Credits

One other comment should be made with respect to these filings. The Economic Recovery Tax Act of 1981 (H.R. 4242) requires, to take advantage of certain tax benefits, ratemaking normalization of tax depreciation on 1981 and subsequent plant additions. The Act also requires

the same treatment for investment tax credits for 1981 and subsequent additions. Beginning with the 1981 additions included in the rate base, ratemaking taxes have been calculated using normalization methods as defined in the Act.

IT IS THEREFORE ORDERED that Order No. 82-182, which suspended the company's rate case filing, is supplemented by permitting Portland General Electric Company an interim rate increase of 8.6 percent (7.86 percent net following application of Regional Power Act residential exchange credit), to be effective for service rendered on and after May 1, 1982. Rates filed by Portland General Electric Company shall not change the revenue relationships among customer classes or between the revenues derived from demand charges and from energy charges. Tariffs implementing this increase shall be filed no later than April 23, 1982. Accompanying the filing will be revenue reconciliation and average system cost work papers.

Made, entered, and effective

April 8, 1982



  
JOHN J. LOBDELL

Public Utility Commissioner

#82-25

April 8, 1982

LOBDELL ORDERS WRITE OFF OF PEBBLE & WPPSS 5; GRANTS INTERIM INCREASE

SALEM -- Public Utility Commissioner John Lobdell said today he will authorize a slight increase in rates for Pacific Power & Light Co. and Portland General Electric Co. But he said he also will require the companies to try to absorb through a reduction in expenses the remainder of the increase each company has requested.

Lobdell's order also said he intends to require the companies to write off their investments in two of the projects Northwest's stalled nuclear power projects, Pebble Springs and Washington Public Power Supply System (WPPSS) Plant No. 2.

The order issued by the commissioner today provides for a rate increase for each company of 3.6 percent. Because of additional benefits that will come under the terms of the Regional Power Act, the increase will raise residential rates only 6 percent for residential customers of PPL and 6.6 percent for residential customers of PGE.

The 3.6 interim increase will not provide either company with an increase in rate of return. A 1981 report by Touche Ross & Co. recommended a 16.25 percent return on common equity but neither company has had sufficient earnings to achieve that level of return.

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Both PGE and PP&L filed for rate increases in February. On Feb. 23, PGE requested an increase of 13.5 percent or \$69.8 million in additional annual revenues. PP&L requested 24.6 percent, \$105 million, on Feb. 24. Both companies asked the commissioner in their filings to provide interim rate relief within 30 days while their requests were being considered and public hearings were held.

Lobbell said he will require the companies to show during public hearings why they cannot absorb some, if not all, of the additional increase they have requested.

"I am approving these increases reluctantly," Lobbell said. "The requests have hit Oregonians at a poor time. A depressed timber industry, severe unemployment, a curbs on governmental benefits to those in need, and continuing high interest rates have combined to cut into consumers' budgets. Consumers have sacrificed, and PGE and PP&L must sacrifice, too," he said.

Lobbell said he believed that there are areas where both companies might reduce their revenue requirement by cutting back on expenses. The companies will be required to produce evidence showing the effect of a 10 percent reduction in controllable expenses on their revenue requirement, he said.

"If the companies feel that some costs are not controllable they must explain why, to my satisfaction," Lobbell said.

Some of the interim increase, which amounts to \$51.6 million for PGE and \$36.4 million for PP&L, will be

offset for residential and small farm customers through an exchange of power with the Bonneville Power Administration. PGE residential customer bills will increase 6.6 percent and small farm customer bills will increase 6.2 percent. Likewise, PP&L's residential customers will experience a 6 percent increase and small farm customer bills will rise 7.1 percent. One thousand kilowatt-hours of electricity will cost residential customers of PGE an additional \$2.22 and PP&L customers will pay \$1.97 more for 1,000 kwh.

A public hearing on the PP&L increase has been scheduled for May 18. A prehearing conference on the PGE case will be held April 12 at 10 a.m. in Hearing Room D of the Labor & Industries Building in Salem.

Lobdell, in the order issued today, told PP&L and PGE that he intends to require them to write off investments in two "dry hole" nuclear power projects--Pebble Springs and Washington Public Power Supply System plant No. 5.

Portland General Electric Co. has invested \$130 million in the Pebble Springs nuclear plant and Lobdell said he wants the company to retire that investment. PGE is majority owner of the project with a 47.1 percent share.

"Circumstances have created a significant financial exposure for stockholders and a potential liability for rate payers. The company must face up to the fact that Pebble Springs is a 'dry hole'," Lobdell said.

"It would be fruitless for the company to continue

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to pursue this project in light of present circumstances. Investors in Pebble Springs must accept the truth and get out before the cost of getting out becomes worse. To compound the problem would be an enormous mistake," Lobdell said.

Pebble Springs has not been licensed by either the State of Oregon or the federal Nuclear Regulatory Commission. Two licensed plants in the region--WPPSS plants Nos. 4 and 5--have been terminated. This is partly due to financial conditions, Lobdell said, but, in addition, projected demands for electricity have declined.

PP&L has a 29.4 percent interest in Pebble Springs as well as a 10 percent investment in WPPSS Plant No. 5. According to Lobdell, PP&L will be directed to amortize \$59 million of its investment in WPPSS No. 5, and write off \$49 million of its investment in Pebble Springs. Overall, PP&L has invested \$83 million in Pebble Springs and \$99 million in WPPSS No. 5. Only slightly more than 50 percent of the costs are attributable to the company's Oregon operations.

"My conclusion, that the financial liabilities of Pebble Springs and WPPSS 5 should be retired, points again to the risk a utility faces in bringing new resources into being for the benefit of the public. The companies will have the opportunity in hearings to persuade me that these investments should not be abandoned. They will face a heavy burden," Lobdell said.

Unlike other Northwest utilities, PP&L may be caught short of power resources in the foreseeable future, Lobdell

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said. The company owns major generating facilities in the state of Wyoming that are currently supplying power to meet the company's load in Oregon.

Load growth in Wyoming is climbing significantly. Lobbell said the company faces the prospect of constructing additional energy facilities but no longer can rely on Pebble Springs or WPPSS No. 5 to help meet its needs. Lobbell said he will consider increasing PP&L's rate of return to reflect the company's increased risk if evidence in the rate case shows it is necessary.