

February 16, 2010

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Subject: LC 48 - PGE Integrated Resource Plan (2009)

Dear Ms. Gorsuch & Mr. Galbraith,

I am writing this as a family property owner in East Marion County. I am concerned about the impact of Portland General Electric's ("PGE") plan to add to the power grid by building a privately owned 500 kV transmission line from Boardman to Salem ("Cascade Crossing").

Last November, PGE submitted to the Oregon Public Utility Commission ("OPUC") a 2009 Integrated Resource Plan ("IRP") that includes a plan to incur \$823 million in new capital costs for the Cascade Crossing project.¹

There are a variety of reasons why OPUC should not acknowledge the Cascade Crossing portion of the IRP at this point in time.

1. The IRP fails to provide data justifying public "need" for the project

As an initial matter, PGE's IRP filing raises questions that relate back to PGE's recent 2008-09 rate case before OPUC. At that time, a PGE witness noted:

Oregon has a longstanding commitment, as a matter of both law and policy, to pursue all cost-effective electricity savings and avoid unnecessary expenditure on generation and grid additions.

See UE 197/PGE/2100/Cavanagh/p. 5.

Part of the recent rate case involved PGE's increasing employment costs. However, "decoupling" was a primary issue – which involves using utility companies to influence energy conservation – while still allowing utilities to recapture lost profits when *less* energy is sold due to successful conservation efforts. PGE's CFO testified about PGE's lost profits when energy consumption drops. *See, e.g.*, UE 197/PGE/100/Piro/p. 19.

¹ PGE 2009 Integrated Resource Plan, Table 8-4, page 197 (*See* p. 5, *infra.*). PGE's projected total cost is reduced to \$613 million if PGE builds a single-circuit versus double-circuit line. *Id.* at page 192. However, the IRP advocates the double-circuit line. *Id.* at page 199.

On January 22, 2009, OPUC agreed with PGE and issued an order approving PGE’s request for a rate increase. At that time, OPUC stated:

This translates to an approximate 7.6 percent rate increase overall for PGE’s customers.

See UE 197, Order No. 09-020.

Less than one year after increasing the rates per KWh charged to PGE customers due, in part, to less energy consumption, PGE now submits an IRP that forecasts rapidly increasing energy demand.²

a. PGE is overestimating growth

Although PGE’s rates have increased on a regular basis, OPUC’s statistics show that PGE experienced “zero” or even slightly negative energy growth from 1999 to 2008:

Portland General Electric Company
TEN-YEAR SUMMARY
SELECTED STATISTICS

| | Oregon Total ^[A] | | | | | Residential Averages in Oregon | | | |
|------|--|---|---|------------------------|-------------------------------|--------------------------------|-------------------------------|--------------|--------|
| | Revenue From Retail Energy Customers | Energy Sold to Retail Customers (MWh) ^[B] | Delivery to ESS Customers (MWh) ^[B] | Average ^[D] | | Number of Customers | Revenue Per kWh (Cents) | Per Customer | |
| | | | | Number of Customers | Revenue Per kWh (Cents) | | | Revenue | kWh |
| 1999 | \$973,326,617 | 19,258,992 | NA | 714,130 | 5.05 | 627,396 | 5.90 | \$697 | 11,802 |
| 2000 | \$1,038,204,376 | 19,872,544 | NA | 726,039 | 5.22 | 637,331 | 6.02 | \$702 | 11,663 |
| 2001 | \$1,096,155,658 | 19,040,188 | NA | 733,058 | 5.76 | 643,596 | 6.59 | \$725 | 11,001 |
| 2002 | \$1,384,322,786 | 18,771,884 | 0 | 741,949 | 7.37 | 649,674 | 8.05 | \$874 | 10,864 |
| 2003 | \$1,283,136,445 | 18,425,854 | 0 | 750,496 | 6.96 | 658,232 | 7.82 | \$844 | 10,785 |
| 2004 | \$1,262,880,182 [C] | 17,764,138 | 775,878 | 762,336 | 7.11 [E] | 668,830 | 8.05 | \$875 | 10,870 |
| 2005 | \$1,264,877,648 [C] | 17,540,047 | 1,213,906 | 775,533 | 7.21 [E] | 680,093 | 8.10 | \$872 | 10,768 |
| 2006 | \$1,361,008,240 [C] | 18,432,527 | 998,574 | 788,831 | 7.38 [E] | 691,931 | 8.29 | \$907 | 10,944 |
| 2007 | \$1,439,248,223 [C] | 17,461,742 | 2,164,687 | 800,587 | 8.24 [E] | 701,952 | 9.31 | \$1,020 | 10,953 |
| 2008 | \$1,483,317,814 | 17,575,806 | 2,417,316 | 811,315 | 8.44 | 710,991 | 9.62 | \$1,066 | 11,080 |

[A] Oregon Total excludes Sales for Resale and Other Electric Revenue.

[B] 1 Megawatt hour (MWh) = 1,000 Kilowatt hours (kWh).

[C] Beginning January 1, 2004, certain commercial and industrial customers have chosen to be served by Electricity Service Suppliers (ESSs) for their energy needs.

These figures have been revised from prior reports to exclude revenues received by Portland General Electric from providing distribution services to ESS customers.

[D] These figures exclude ESS customers.

[E] These figures have been revised from prior reports to exclude Oregon revenue from ESS customers and MWh of ESS deliveries.

See 2008 Oregon Utility Statistics (Oregon PUC), p. 8.

² The IRP predicts “...long term energy demand growth rates of 2.2% annually....” See PGE IRP, p. 32 (“Chapter Highlights”).

The above OPUC statistics appear to reflect a successful state policy initiative that has reduced per capita energy consumption by the Oregon public over the last ten years. It is interesting that PGE’s total number of Oregon customers increased while the total energy units sold (consumed by those customers) declined from 19,258,992 MWh in 1999 to 17,575,806 MWh in 2008. These statistics are evidence of no new “need” for another large-scale power transmission line from Boardman into the Willamette Valley.

Despite OPUC statistics that indicate otherwise, PGE is now suggesting to the public that energy demand is growing at rates not seen for decades:

The Pacific Northwest continues to be one of the fastest growing regions in the country. Over the next 20 years, the demand for more electricity to serve Oregon customers will increase more than 45 percent, compared to 30 percent nationally.

See Portland General Electric, *Issues in Perspective*, November 2009.

Leaving aside how the above PGE representation conflicts with OPUC statistics, even one of PGE’s competitors (PacifiCorp) is publishing information that contradicts PGE and indicates very little growth in energy demand for the next ten years:

Table E.1 – Forecasted Sales Growth in Oregon

| Sales – Gigawatt Hour (GWh) | | | | | | | |
|-----------------------------|-------------|------------|------------|------------|----------|-------|---------------|
| | Residential | Commercial | Industrial | Irrigation | Lighting | Other | Total |
| 2009 | 5,401 | 4,819 | 2,781 | 266 | 38 | 0 | 13,304 |
| 2010 | 5,439 | 4,836 | 2,816 | 265 | 37 | 0 | 13,393 |
| 2011 | 5,445 | 4,849 | 2,816 | 265 | 37 | 0 | 13,413 |
| 2012 | 5,476 | 4,872 | 2,853 | 265 | 37 | 0 | 13,504 |
| 2013 | 5,435 | 4,892 | 2,891 | 265 | 37 | 0 | 13,520 |
| 2014 | 5,413 | 4,924 | 2,915 | 265 | 37 | 0 | 13,554 |
| 2015 | 5,390 | 4,955 | 2,936 | 265 | 37 | 0 | 13,583 |
| 2016 | 5,388 | 4,999 | 2,961 | 265 | 37 | 0 | 13,651 |
| 2017 | 5,351 | 5,016 | 2,980 | 265 | 37 | 0 | 13,651 |
| 2018 | 5,376 | 5,040 | 3,000 | 265 | 37 | 0 | 13,718 |
| Average Annual Growth Rate | | | | | | | |
| 2009-2018 | (0.1)% | 0.5% | 0.8% | (0.0)% | (0.1)% | N/A | 0.3% |

See LC 47, PacifiCorp 2008 Integrated Resource Plan, Vol. II, Appendix E. (May 28, 2009).

The difference between 2.2% (PGE) and 0.3% (PacifiCorp) in annual growth is material to the “need” for more transmission lines over the next 10 and 20 year time periods. In terms of simple math, it is the difference between 45% and 6% cumulative growth over a 20 year span.

Moreover, PGE was wrong ten years ago (in 1999) when it made exactly the same prediction:

The demand for energy within PGE's service territory has experienced an average annual growth rate of approximately 2.5% over the last 10 years and retail demand is expected to continue this upward trend.

See PGE SEC 10-K filing (FY 1999), p. 7 of 46 (.txt format).

With respect to the short-term peak capacity loads that PGE puts on the system, the most current PGE 10-K filing (for FY 2008) indicates that PGE's peak loads have not increased for 10 years:

PGE's all-time high net system load peak was 4,073 MW and occurred in *December 1998*.

See PGE SEC 10-K filing (FY 2008), p. 12 (emphasis added).

b. PGE speculates about increasing BPA transmission charges

The IRP's financial cost-benefit analysis for the Cascade Crossing project is premised on the assumption that BPA will increase its future charges to PGE for use of BPA power lines – and those assumed future charges are likely to cover the \$823 million capital cost of the project – thus justifying the project's cost.

However, one does not need to dig very deeply to discover that PGE's assumptions about higher BPA costs are based on another underlying assumption – PGE is assuming BPA will also build new power lines in the region; and BPA will then recoup the costs of BPA's not-yet-built lines by charging higher transmission rates to PGE and other private utilities. This last assumption might be better if PGE could point to issued construction permits that BPA presently has in place that makes BPA line construction more certain. However, BPA does not appear to have any permits in place.

As an example of the difficulty in obtaining these permits, BPA met resistance in Marion County about 7 or 8 years ago when it attempted to double the size of its transmission line easement beyond an easement grandfathered in before passage of Oregon's current land use zoning laws (designed to protect farm lands in the area). Instead of running afoul of Oregon's land use statutes that protect farm lands, BPA eventually decided to stay within a right of way granted in the 1950's by upgrading transmission capacity of its 230 kV single-circuit line to double-circuit (Mehama to Chemawa).

There is published information that indicates the cost of the BPA upgrade was about \$12 million for upgrading the transmission capacity from Mehama to Chemawa. It is interesting that PGE has made no effort to upgrade its single-circuit 230 kV line to

double-circuit within existing right of way easements in the same area. There are other single-circuit lines in the same area that could be upgraded as well.

The point is this: everyone involved with these issues probably agrees that the electrical transmission system may achieve a higher reliability factor if there is greater transmission capacity. However, no one is presently saying the system is unable to meet current needs. No one is building windmills in eastern Oregon unless they already know they can connect them to the power grid. There is no evidence that Oregon’s energy consumption will increase by 45% in 20 years – but there is evidence it will not happen.

Growth in energy consumption is linked to population growth. It is wrong to build more power lines based on antiquated assumptions when historical data is now showing that growth rates are slowing everywhere.

According to the U.S. Census Bureau, Oregon’s population grew about 8.8% from July 2000 to July 2008. See www.census.gov/popest/states/tables/NST-EST2008-01.xls. That is about 1% per year in average population growth during a period of time of relative economic prosperity, when only the front and back ends were subject to recessions. Reliable authorities are now starting to predict zero population growth in the United States in 20 or 30 years.

2. PGE underestimates right of way acquisition costs

In addition to failing to establish need, there are other reasons for not acknowledging the Cascade Crossing portion of the IRP, because of the likelihood of significant underestimates in other kinds of costs. The IRP breaks down total project cost as follows:

Table 8-4: Cascade Crossing Capital Cost (Double-Circuit)

| Capital Expenditures | Total |
|------------------------------------|----------------------|
| Substations | \$201,500,000 |
| Transmission - Structures | \$377,000,000 |
| Transmission - Conductors | \$125,300,000 |
| Transmission - Capacitor Banks | \$19,200,000 |
| Power Transformer at Bethel Sub | \$25,800,000 |
| Land and Right of Way | \$43,300,000 |
| Environmental Assessment & Studies | \$4,600,000 |
| Permitting, Licenses & Fees | \$2,600,000 |
| Project Management | \$4,100,000 |
| Outside Legal Services | \$1,000,000 |
| Preliminary Engineering | \$500,000 |
| Public Relations & Education | \$1,400,000 |
| Habitat Mitigation Costs | \$10,200,000 |
| Contingency & Other Costs | \$6,200,000 |
| Total Project Cost | \$822,700,000 |

PGE 2009 Integrated Resource Plan, Table 8-4, page 197.