

**SCHEDULE 126  
ANNUAL POWER COST VARIANCE MECHANISM**

**PURPOSE**

To recognize in rates part of the difference for a given year between Actual Net Variable Power Costs and the Net Variable Power Costs forecast pursuant to Schedule 125, Annual Power Cost Update and in accordance with Commission Order No. 07-015. This schedule is an “automatic adjustment clause” as defined in ORS 757.210.

**APPLICABLE**

To all Customers for Electricity Service except those who were served on Schedule 76R and 576R, 485, 489, 490, 491, 492, 495, 515, 532, 538, 549, 583, 585, 589, 591, 592, 595 and 689, or served under Schedules 83, 85, 89 or 90 Daily Price Option for the entire calendar year that the Annual Power Cost Variance accrued. Customers served on Schedules 538, 583, 585, 589, 590, 591, 592 and 595 who received the Schedule 128 Balance of Year Transition Adjustment will be subject to this adjustment.

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**ANNUAL POWER COST VARIANCE**

Subject to the Earnings Test, the Annual Power Cost Variance (PCV) is 90% of the amount that the Annual Variance exceeds either the Positive Annual Power Cost Deadband for a Positive Annual Variance or the Negative Annual Power Cost Deadband for a Negative Annual Variance.

**POWER COST VARIANCE ACCOUNT**

The Company will maintain a PCV Account to record Annual Variance amounts. The Account will contain the difference between the Adjustment Amount and amounts credited to or collected from Customers. This account will accrue interest at the Commission-authorized rate for deferred accounts. At the end of each year the Adjustment Amount for the calendar year will be adjusted by 50% of the annual interest calculated at the Commission-authorized rate. This amount will be added to the Adjustment Account.

Any balance in the PCV Account will be amortized to rates over a period determined by the Commission. Annually, the Company will propose to the Commission PCV Adjustment Rates that will amortize the PCV to rates over a period recommended by the Company. The amount accruing to Customers, whether positive or negative, will be multiplied by a revenue sensitive factor of 1.0320 to account for franchise fees, uncollectibles, and OPUC fees.

**EARNINGS TEST**

The recovery from or refund to Customers of any Adjustment Amount will be subject to an earnings review for the year that the power costs were incurred. The Company will recover the Adjustment Amount to the extent that such recovery will not cause the Company's Actual Return on Equity (ROE) for the year to exceed its Authorized ROE minus 100 basis points. The Company will refund the Adjustment Amount to the extent that such refunding will not cause the Company's Actual Return on Equity (ROE) for the year to fall below its Authorized ROE plus 100 basis points.

Schedule 126 (Continued)

DEFINITIONS

**Actual Loads**

Actual loads are total annual calendar retail loads adjusted to exclude loads of Customers to whom this adjustment schedule does not apply.

**Actual NVPC**

Incurred cost of power based on the definition for NVPC described here in. Actual NVPC will be increased by the value of the energy associated with those Customers that received the Schedule 128 Balance of Year Transition Adjustment for the period during the year that the Customers received the Schedule 128 adjustment.

**Actual Unit NVPC**

The Actual Unit NVPC is the Actual NVPC divided by Actual Loads.

**Annual Variance (AV)**

The Annual Variance (AV) is the dollar amount calculated annually based on the following formula:

$$(\text{Actual Unit NVPC} - \text{Adjusted Base Unit NVPC}) * \text{Actual Loads}$$

**Base Unit NVPC**

The Base Unit NVPC is the NVPC used to develop rate schedules for the applicable year divided by the associated calendar basis retail loads. Base NVPC are updated annually in accordance with Schedule 125.

**Adjusted Base Unit NVPC**

The Adjusted Base Unit NVPC is the NVPC used to calculate the Annual Variance. The Adjusted Base Unit NVPC is the Base Unit NVPC (determined in accordance with Schedule 125) adjusted for load and cost changes resulting from non-residential customers choosing service under Schedule 515 through 595 after the November update for the applicable year. (C)

**Negative Annual Power Cost Deadband**

The Negative Annual Power Cost Deadband is (\$15.0 million).

**Positive Annual Power Cost Deadband**

The Positive Annual Power Cost Deadband is \$30.0 million.

### Schedule 126 (Continued)

#### DEFINITIONS (Continued)

##### **Net Variable Power Costs (NVPC)**

The Net Variable Power Costs (NVPC) represents the power costs for Energy generated and purchased. NVPC are the net cost of fuel and emission control chemicals, fuel and emission control chemical transportation, power contracts, transmission/wheeling, wholesale sales, hedges, options and other financial instruments incurred to serve retail load. For purposes of calculating the NVPC, the following adjustments will be made:

- Exclude BPA payments in lieu of Subscription Power.
- Exclude the monthly FASB 133 mark-to-market activity.
- Exclude any cost or revenue unrelated to the period.
- Include as a cost all losses that the Company incurs, or is reasonably expected to incur, as a result of any non-retail Customer failing to pay the Company for the sale of power during the deferral period.
- Include fuel costs and revenues associated with steam sales from the Coyote Springs I Plant.
- Include gas resale revenues.
- Include Energy Charge revenues from Schedules 76R, 38, 83, 85, 89, 90, and 91 Energy pricing options other than Cost of Service and the Energy Charge revenues from the Market Based Pricing Option from Schedules 485, 489, 490, 491, 492, 495 and 689 as an offset to NVPC.
- NVPC shall be adjusted as needed to comply with Order 07-015 that states that ancillary services, the revenues from sales as well as the costs from the services, should also be taken into account in the mechanism.
- Actual NVPC will be increased to include the value of the energy associated with those Customers that received the Schedule 128 Balance of Year Transition Adjustment for the period during the year that the Customers received the Schedule 128 adjustment.
- Include reciprocating engine lubrication oil expenses.
- Include actual State and Federal Production Tax Credits.

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##### **ADJUSTMENT AMOUNT**

The amount accruing to the Power Cost Variance Account, whether positive or negative will be multiplied by a revenue sensitive factor of 1.0320 to account for franchise fees, uncollectables, and OPUC fees.

The Power Cost Adjustment Rate shall be set at level such that the projected amortization for 12 month period beginning with the implementation of the rate is no greater than six percent (6%) of annual Company retail revenues for the preceding calendar year.

##### **TIME AND MANNER OF FILING**

As a minimum, on July 1<sup>st</sup> of the following year (or the next business day if the 1<sup>st</sup> is a weekend or holiday), the Company will file with the Commission recommended adjustment rates for the next calendar year.

**Schedule 126 (Continued)**

TIME AND MANNER OF FILING (Continued)

Included in this filing will be the following information:

- 1) A transmittal letter that summarizes the proposed changes.
- 2) Revised Power Cost Variance Rates.
- 3) Work papers supporting the calculation of the revised PCV rates.

If the Company finds that the PCV Rates may over or under collect revenues in a particular year, the Company may recommend a modification of the Adjustment Rates to the Commission. The Company may also recommend that the Commission consider Adjustment Rates based on a collection or refund period different than one year based on the balance in the PCV Account.

**POWER COST VARIANCE RATES**

The PCV Rates will be determined on an equal cents per kWh basis. The PCV Rates are:

<u>Schedule</u>	<u>Adjustment Rate</u>	
7	0.000 ¢ per kWh	(I)
15	0.000 ¢ per kWh	
32	0.000 ¢ per kWh	
38	0.000 ¢ per kWh	
47	0.000 ¢ per kWh	
49	0.000 ¢ per kWh	
75		
Secondary	0.000 ¢ per kWh <sup>(1)</sup>	
Primary	0.000 ¢ per kWh <sup>(1)</sup>	
Subtransmission	0.000 ¢ per kWh <sup>(1)</sup>	
83	0.000 ¢ per kWh	
85		
Secondary	0.000 ¢ per kWh	
Primary	0.000 ¢ per kWh	
89		
Secondary	0.000 ¢ per kWh	
Primary	0.000 ¢ per kWh	
Subtransmission	0.000 ¢ per kWh	(I)

(1) Applicable only to the Baseline and Scheduled Maintenance Energy.

(2) Not applicable to Customers where service was received for the entire calendar year that the Annual Power Cost Variance accrued.

**Schedule 126 (Continued)**

POWER COST VARIANCE RATES (Continued)

<u>Schedule</u>	<u>Adjustment Rate</u>	
90	0.000 ¢ per kWh	(N)
91	0.000 ¢ per kWh	
92	0.000 ¢ per kWh	
95	0.000 ¢ per kWh	(D)
485		
Secondary	0.000 ¢ per kWh <sup>(2)</sup>	
Primary	0.000 ¢ per kWh <sup>(2)</sup>	
489		
Secondary	0.000 ¢ per kWh <sup>(2)</sup>	
Primary	0.000 ¢ per kWh <sup>(2)</sup>	
Subtransmission	0.000 ¢ per kWh <sup>(2)</sup>	(N)
490	0.000 ¢ per kWh	
491	0.000 ¢ per kWh	
492	0.000 ¢ per kWh	
495	0.000 ¢ per kWh	(N)
515	0.000 ¢ per kWh <sup>(2)</sup>	
532	0.000 ¢ per kWh <sup>(2)</sup>	
538	0.000 ¢ per kWh <sup>(2)</sup>	
549	0.000 ¢ per kWh <sup>(2)</sup>	
575		
Secondary	0.000 ¢ per kWh <sup>(1)</sup>	
Primary	0.000 ¢ per kWh <sup>(1)</sup>	
Subtransmission	0.000 ¢ per kWh <sup>(1)</sup>	
583	0.000 ¢ per kWh <sup>(2)</sup>	
585	0.000 ¢ per kWh <sup>(2)</sup>	
Secondary	0.000 ¢ per kWh <sup>(2)</sup>	
Primary	0.000 ¢ per kWh <sup>(2)</sup>	
589		
Secondary	0.000 ¢ per kWh <sup>(2)</sup>	
Primary	0.000 ¢ per kWh <sup>(2)</sup>	
Subtransmission	0.000 ¢ per kWh <sup>(2)</sup>	
590	0.000 ¢ per kWh	(N)
591	0.000 ¢ per kWh <sup>(2)</sup>	
592	0.000 ¢ per kWh <sup>(2)</sup>	
595	0.000 ¢ per kWh <sup>(2)</sup>	

(1) Applicable only to the Baseline and Scheduled Maintenance Energy.

(2) Not applicable to Customers where service was received for the entire calendar year that the Annual Power Cost Variance accrued.

**SCHEDULE 126 (Concluded)**

**TERM**

Effective for service on and after January 17, 2007 and continuing until terminated by the Commission.

This schedule may only be terminated upon approval or order of the Commission. If this schedule is terminated for any reason, the Company will determine the remaining Adjustment Amount on a prorated basis consistent with the principles of this schedule. In such case, any balance in the PCV Account will be amortized to rates over a period to be determined by the Commission.