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Douglas C. Tingey
Assistant General Counsel

February 21, 2007

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
PO Box 2148
Salem OR 97308-2148

Re: UE 180, UE 181 AND UE 184

Attention Filing Center:

Enclosed for filing in the captioned dockets are an original and one copy of:

**PORTLAND GENERAL ELECTRIC COMPANY'S RESPONSE TO STAFF'S
MOTION FOR CLARIFICATION OF COMMISSION FINAL ORDER.**

This document is being filed by electronic mail with the Filing Center.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "D.C. Tingey", written in a cursive style.

DOUGLAS C. TINGEY

DCT:jbf
Enclosure

cc: Service List-UE 180, 181 and 184

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 180/ UE 181/ UE 184

In the Matter of)
PORTLAND GENERAL ELECTRIC)
COMPANY)
Request for a General Rate Revision (UE 180),)
_____)

In the Matter of)
PORTLAND GENERAL ELECTRIC)
COMPANY)
Annual Adjustments to Schedule 125 (2007)
RVM Filing) (UE 181),)
_____)

In the Matter of)
PORTLAND GENERAL ELECTRIC)
COMPANY)
Request for a General Rate Revision relating to)
the Port Westward Plant (UE 184).)
_____)

PORTLAND GENERAL
ELECTRIC COMPANY'S
RESPONSE TO STAFF'S MOTION
FOR CLARIFICATION OF
COMMISSION FINAL ORDER

Portland General Electric Company (“PGE”) submits this reply to the Staff Motion for Clarification of Commission Final Order filed on February 12, 2007.

DISCUSSION

On January 26, 2007, PGE filed Advice No. 07-04, Modifications to Schedule 126, Annual Power Cost Variance Mechanism (the “Advice Filing”). That Advice Filing added specification to the “positive” and “negative” limits of the Annual Power Cost Deadband established in Order 07-015 in this docket (the “Order”). The Advice Filing also added to the

Earnings Test a description of the actual earnings test return on equity percentage ranges required by Order 07-015. Consistent with its understanding of the Order, PGE calculated the power cost deadbands on an after-tax basis. PGE explained in its filing that these deadbands, and the operation of SB 408, would have the stated after-tax impact on return on equity.

On February 12, 2007, Staff filed a motion for clarification of Order 07-015, expressing its belief that “the Commission intended the PCVM deadband to be expressed in pre-tax dollars.” Staff’s motion seeks an order from the Commission clarifying that “PGE’s proposed deadband values must be grossed-up for State and Federal taxes and other revenue sensitive costs.”

Also on February 12, 2007, the Commission issued Order 07-049 in Docket UM 1234, PGE’s application for deferred accounting of excess power costs due to the Boardman plant outage that occurred in late 2005 and early 2006. Order 07-049 addressed the interplay between deadbands and SB 408. In that order the Commission expressly decreased the size of the deferral deadband in recognition of the effects of SB 408, and calculated the dollar amount of the deadband on a pre-tax basis. Those calculations confirmed that Staff’s interpretation of the Order was correct. The Boardman deferral order also referenced the Order in this docket and stated: “In Order No. 07-015, entered in UE 180, we applied an adjusted 150 basis points on ROE deadband [footnote] as an explicit measure of normal business risk.” *Order 07-049, p. 19*. The referenced footnote stated: “The size of the deadband reflects adjustment for SB 408 effects.” *Id.*

Applying the Boardman deferral order methodology to the power cost deadband in this docket will produce deadband values that are larger than those in the Advice Filing. Thus, PGE will file amended tariff sheets incorporating power cost deadbands calculated consistent with the Commission’s calculation in the Boardman deferral order; i.e., on a pre-tax basis. Staff’s motion

calculated the deadband values based on adjusting not only for taxes, but other revenue-sensitive items. PGE has discussed this issue with Staff, and PGE and Staff now agree that the appropriate gross-up factor is derived from the combined State and Federal tax rate used in determining rates in this docket, and not other revenue sensitive costs. Revenue sensitive items apply when one grosses-up a revenue item, not a cost item such as power costs.

The appropriate gross-up factor is the combined State and Federal tax rate used in determining rates in this docket, which is 39.301% based on the information in Appendix F to the Order. Using this correct gross-up factor yields the following values:

Before Port Westward 150 basis points	\$21.359 million
Before Port Westward -75 basis points	\$(10.680) million
After Port Westward 150 basis points	\$24.820 million
After Port Westward -75 basis points	\$(12.410) million

A spreadsheet showing the calculation of these deadband values is attached as Exhibit A. As that attachment also shows, the effect on PGE of a deadband calculated in this manner is almost the same as a pre-SB 408 deadband of positive 250 basis points and negative 125 basis points.

PGE requests that the Commission confirm that these are the power cost deadbands it determined as appropriate for use in the Annual Power Cost Variance Mechanism.¹

¹ PGE reserves the right to file a motion for reconsideration regarding other issues surrounding the power cost deadband that have not been raised by Staff's motion.

CONCLUSION

For the reasons stated above PGE joins Staff in requesting that the Commission issue an order clarifying its intent regarding the calculation of the power cost deadband in PGE's Power Cost Variance Mechanism.

DATED this 21st day of February, 2007

Respectfully submitted,

/s/ DOUGLAS C. TINGEY

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**Deadband Calculation
Based on Order 07-015
Dollars in \$000s**

	Before Port Westward	With Port Westward	
Approved Rate Base	1,728,659	2,008,749	See Appendix F, pgs. 1 & 5
Equity Share of Rate Base	50.00%	50.00%	See Appendix F, pg. 8
Equity Share of Rate Base	864,330	1,004,375	Equals 50% * Approved Rate Base
150 Basis Points of ROE (After-Tax)	12,965	15,066	Equals 1.50% * Equity Share of Rate Base
75 Basis Points of ROE (After-Tax)	(6,482)	(7,533)	Equals .75% * Equity Share of Rate Base

Gross Up After-Tax Calc above for Taxes:

Gross-Up Factor (1/(1-39.301%))	1.6475	1.6475
150 Basis Points of ROE (Pre-Tax)	21,359	24,820
75 Basis Points of ROE (Pre-Tax)	(10,680)	(12,410)

Deadband Results

**Based on Order 07-015 (Results with Port Westward for Illustration)
Dollars in \$000s**

Impact of Deadband after SB 408 (Higher NVPC):

Pre-Tax NVPC Absorbed	24,820
Tax Benefit of Higher NVPC	(9,755)
SB 408 Refund	9,755
After Tax Impact	<u>24,820</u>

Rate Base	2,008,749
Equity Share	50.000%
Equity Rate Base	<u>1,004,375</u>

After-Tax Impact on ROE	2.471%
Basis Points	247.1

Impact of Deadband after SB 408 (Lower NVPC):

Pre-Tax NVPC Benefit	(12,410)
Tax Cost of Lower NVPC	4,877
SB 408 Collection	(4,877)
After Tax Impact	<u>(12,410)</u>

Rate Base	2,008,749
Equity Share	50.000%
Equity Rate Base	<u>1,004,375</u>

After-Tax Impact on ROE	-1.236%
Basis Points	-123.6

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the **PGE'S RESPONSE TO STAFF'S MOTION FOR CLARIFICATION OF COMMISSION FINAL ORDER** to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class US Mail, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service.

Dated at Portland, Oregon, this 21st day of February 2007.

/s/ DOUGLAS C. TINGEY

DOUGLAS C. TINGEY

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