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October 27, 2006

Via Electronic and U.S. Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of PORTLAND GENERAL ELECTRIC COMPANY
Request for a General Rate Revision
Docket Nos. UE 180/UE 181/UE 184

Dear Filing Center:

Enclosed please find an original and six copies of the Prehearing Brief of the Industrial Customers of Northwest Utilities ("ICNU") in the above-referenced docket numbers.

Please return one file-stamped copy of each document in the self-addressed, stamped envelope provided. Thank you for your assistance.

Sincerely yours,

/s/ Ruth A. Miller
Ruth A. Miller

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Prehearing Brief of the Industrial Customers of Northwest Utilities upon the parties, on the official service list, by causing the same to be electronically served, to those parties with an email address, as well as mailed, postage-prepaid, through the U.S. Mail.

Dated at Portland, Oregon, this 27th day of October, 2006.

/s/ Ruth A. Miller
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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),	)	PREHEARING BRIEF OF ICNU
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).	)	

The Industrial Customers of Northwest Utilities ("ICNU") submits this prehearing brief, summarizing ICNU's position on certain issues before the Public Utility Commission of Oregon ("OPUC" or the "Commission") in these consolidated Dockets. The issues that Portland General Electric Company ("PGE" or the "Company") raised in its initial filing have been

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substantially narrowed as a result of multiple stipulations in this proceeding. ICNU's prehearing brief addresses the following issues:[1/]

1. Net variable power costs;
2. Forced outage rates;
3. PGE's proposed power cost adjustment mechanism (the annual variance tariff);
4. PGE's proposed annual update tariff;
5. Cost of capital, including capital structure and rate of return; and
6. PGE's proposed economic replacement power tariff.

PGE filed voluminous sur-surrebuttal testimony on October 25, 2006, in which the Company responded to issues raised by Staff and intervenors and put forth new information and proposals that the parties had not previously addressed. ICNU's prehearing brief does not, for the most part, discuss the issues and evidence raised in PGE's sur-surrebuttal testimony due to the voluminous nature of that filing and the short time interval prior to filing this brief.

I. Net Variable Power Costs

PGE's net variable power costs ("NVPC") are the variable production costs related to fuel and purchased power expenses, net of power sales revenue. PGE estimated its NVPC for this proceeding using its Monet production cost model. PGE requested approximately $847.3 million in total NVPC in this case. ICNU proposed multiple adjustments that reduce PGE's requested NVPC by approximately $16.7 million.

- ***Extrinsic Value Adjustment.*** ICNU proposes an adjustment related to PGE's failure to consider the extrinsic value of the Company's generating facilities in forecasting

[1/] The content and format for ICNU's brief is based on the guidance regarding prehearing briefs in previous dockets. See, e.g., Re PacifiCorp, OPUC Docket No. UE 170, Memorandum (June 14, 2005).

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NVPC. PGE's Monet model uses a single point price forecast for fuel inputs rather than a stochastic model, which could be used to estimate the extrinsic value of marginal plants. The Commission should adopt an extrinsic value adjustment to account for increased sales from, and the off-loading of gas plants due to, market conditions. ICNU's proposed adjustment for PGE's generating facilities reduces net variable power costs by approximately $5.9 million.

- ***Capacity Tolling Agreements.*** PGE includes $3.0 million in NVPC for the demand charges for two capacity tolling agreements, the "cold snap" contract and the "super peak" contract. Based on the gas and electric market price projections that PGE included in Monet, the Company does not expect these contracts to dispatch in 2007. ICNU recommends that the Commission disallow the costs of at least one, if not both, of these agreements.

PGE's "cold snap" contract will not be used and useful to ratepayers in the rate year. The contract is not expected to dispatch in 2007, just as it was not dispatched in 2005 or 2006, even though PGE included the demand charges in power costs. The contract has no extrinsic value; it merely increases NVPC without providing an identifiable benefit. ICNU recommends disallowing the cost of the cold snap contract, which reduces NVPC by approximately $1.8 million.

ICNU recommends that the Commission disallow the cost of PGE's "super peak" contract if the Commission rejects ICNU's extrinsic value adjustment described above. PGE justified the cost of the super peak contract on the basis of extrinsic value. As a result, determining that the super peak contract is prudent requires the Commission to accept extrinsic value analysis for ratemaking purposes. If the Commission rejects ICNU's extrinsic value

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adjustment, then it should remove the super peak contract from rates. Removing the cost of the super peak contract reduces PGE's proposed NVPC by approximately $1.4 million.

- ***Port Westward Dispatch Benefit.*** PGE underestimates the value of the Port Westward dispatch benefit. PGE's methodology is unrealistic because it assumes that the dispatch benefit is proportional to load, rather than relying on the dispatch cost of the unit and the forward curve. Incorporating more realistic assumptions regarding how much the plant will actually run in 2007 reduces PGE's proposed NVPC by approximately $1.9 million. This adjustment would apply only after March 1, when PGE proposes to include Port Westward's costs in rates.

II. Forced Outage Rates

ICNU recommends that the Commission reconsider using the four-year rolling average methodology to determine forced outage rate assumptions for thermal generating facilities. Using the four-year rolling average provides no incentive for utilities to improve plant reliability. Indeed, PGE's reliability record for thermal generating facilities in recent years exceeds the averages for comparable facilities according to National Electric Reliability Council ("NERC") outage data. As a result, PGE's actual outage rates do not reflect a normalized expectation of plant availability in the rate year.

ICNU recommends that the Commission adopt a methodology for developing forced outage rate assumptions that uses industry-wide statistics such as NERC data. Using objective, verifiable data will help to estimate power costs without relying on the efficiency of PGE's operations. ICNU witness Randy Falkenberg describes in his testimony a stochastic model that compares the outage rates of a utility's generation resources to those in a similar peer

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group based on NERC national average data. Using NERC average outage rates would reduce PGE's proposed NVPC by approximately $5.7 million.

Even if the Commission continues to use the four-year rolling average, PGE should not be allowed to include the 2005 Boardman outage in forced outage rates. PGE has not demonstrated that including the Boardman outage in forced outage rate assumptions will result in forced outage rates that reflect normalized plant availability in the rate year. Furthermore, PGE has not demonstrated that the Company acted prudently with respect to this outage, and the Commission should not include such an event in outage rate assumptions without first determining that the utility has acted prudently.

III. Power Cost Adjustment Mechanism (Annual Variance Tariff)

The Commission should reject PGE's proposed annual variance tariff. PGE's proposal is merely the latest in a long line of Company-sponsored mechanisms that would inequitably shift the risk of power cost variations to customers. PGE's annual variance tariff would track the difference between forecasted NVPC and actual NVPC each year. In rejecting PGE's most recent proposal for a hydro-related power cost adjustment, the Commission stated that an acceptable mechanism must: 1) be limited to unusual events; 2) not adjust rates if overall earnings are reasonable; 3) be revenue neutral; and 4) operate over the long-term. Re PGE, OPUC Docket Nos. UE 165 and UM 1187, Order No. 05-1261 at 8 (Dec. 21, 2005). PGE's proposal fails to acknowledge these criteria in any meaningful manner.

In order to ensure that a PCA is limited to unusual events, the Commission stated that "[t]he inclusion of a deadband around expected power costs is a reasonable way to identify if an event is unusual." Id. at 9. PGE's proposed mechanism does not contain a deadband. Rather,

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PGE proposes a 90/10 sharing of *all* variances in NVPC, whether unusual or not. Furthermore, PGE does not even address any sort of earnings test, revenue neutrality, or long-term operation. PGE's proposal effectively seeks to shift almost all risk of power cost variation to customers.

PGE's proposal also would not give the Company any incentive to address the actual causes of power cost variability and would violate the principles of price finality. Instead, adoption of a PCA would allow the Company to stand pat and insulate itself from the risk of power cost variation.

IV. Annual Update Tariff

In addition to the PCA, PGE proposes an Annual Update tariff that is similar to the current annual adjustment under the Resource Valuation Mechanism in Schedule 125. PGE claims that it needs the Annual Update tariff to help insulate the Company from year-to-year power cost variations as well as the Annual Variance tariff that addresses power cost variations within the year. PGE simply does not need both mechanisms. The goal of each tariff is to shift the risk of power cost variation to customers. ICNU urges the Commission to reject the Annual Update tariff, especially if the Commission authorizes a PCA.

V. Cost of Capital and Return on Equity

ICNU and the Citizens' Utility Board jointly sponsored Michael Gorman's testimony addressing cost of capital, return on equity, and rate of return issues. Mr. Gorman's total rate of return adjustments, if adopted, would reduce PGE's requested revenue requirement by $27.5 million.

- ***Capital Structure.*** The Commission should reject PGE's proposed capital structure and adopt values that reflect a more reasonable balance of common equity and debt.

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PGE's proposed capital structure consists of 55.96% common equity, 0.29% preferred equity, and 43.75% long-term debt. PGE's proposed 55.96% common equity is excessive and out of line with the capital structures for utilities both in the northwest and across the country. Mr. Gorman demonstrated that the typical capital structure includes an equity ratio between 40% and 50%. PGE's excessive common equity unreasonably inflates the overall rate of return and the claimed revenue deficiency in this proceeding, because common equity is the most expensive form of capital.

Mr. Gorman proposes a more reasonable capital structure of 50% common equity, 0.29% preferred stock, and 49.71% long-term debt. This capital structure is more comparable to the industry average and will allow PGE to maintain its current credit rating. Adopting Mr. Gorman's proposed capital structure reduces PGE's revenue requirement by $11.6 million.

- ***Return on Equity.*** The utility's return on common equity is the return that investors expect, or require, in order to make an investment. PGE's proposed return on equity of 10.75% is excessive, because it relies on significantly overstating PGE's current cost of common equity. Mr. Gorman recommends a return on common equity of 9.9% for PGE and an overall rate of return of 8.3%. Mr. Gorman's recommended 9.9% return on equity is based on the mid-point of a range of 9.5% to 10.4% that was calculated using three separate rate of return modeling techniques: the Discounted Cash Flow Model, the Risk Premium Model, and the Capital Asset Pricing Model. A 9.9% return on equity will allow PGE to maintain its financial integrity and will support the Company's current bond rating. These adjustments reduce the Company's requested revenue requirement by $15.9 million.

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VI. Economic Replacement Power Tariff

The Commission should adopt ICNU's proposed pricing options for a partial-requirements customer that elects to take economic replacement power. A partial-requirements customer is an industrial customer that has its load served by both PGE and their own generation resource. Economic replacement power is a service that provides a partial-requirements customer the opportunity to purchase power from PGE at market prices when it is more economical than running their own generation. The parties agree that economic replacement power is an important aspect of partial-requirements service, but have proposed different pricing options.

In direct and rebuttal testimony, PGE proposed to continue using its current economic replacement power tariff that allows a partial requirements customer to purchase power in hourly increments that is priced at the Dow Jones Mid-Columbia Hourly Price Index, plus a 5% adder, wheeling and losses. The hourly index price is a real-time price that is not known until after the fact. Use of a real-time price makes it difficult for a partial-requirements customer to determine whether buying economic replacement energy is an economic option. In surrebuttal testimony, PGE proposed using PacifiCorp's economic replacement power tariff. PacifiCorp's economic replacement power tariff provides a partial requirements customer with the option to purchase replacement power one day, month or quarter ahead. PacifiCorp's economic replacement power tariff provides more price certainty, but imposes significant transactional costs for use of economic replacement power (especially for non-block purchases), and provides less flexibility than PGE's existing economic replacement power tariff.

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ICNU has proposed new options that would replace PGE's economic replacement power tariff. Specifically, ICNU proposes to: 1) substitute the daily-market pricing option under proposed Schedules 83/89 for the hourly market pricing provisions in PGE's proposal; 2) allow partial-requirements customers to use direct access service to purchase economic replacement power in the same manner as the buy-through arrangements in Schedule 576R; and 3) allow partial-requirements customers to purchase Schedule 87, Experimental Real Time Pricing Service economic replacement power, subject to the provisions of that experimental tariff, which impose limitations on size and the number of customers. These proposals are similar to the existing market pricing options available to PGE's other industrial customers and do not unduly shift risk to PGE or its other customers.

VII. Conclusion

ICNU appreciates the opportunity to comment on the issues in this case and urges the Commission to adopt ICNU's proposed adjustments to establish just and reasonable rates.

Dated this 27th day of October, 2006.

Respectfully submitted,

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