BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 188

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In the Matter of	)
	)
PORTLAND GENERAL ELECTRIC,	)
	)
Request for a Rate Increase in Oregon	)
Annual Revenues of $13,000,000 for	)
Biglow Canyon.	)
	)

REPLY TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

June 20, 2007

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

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In the Matter of PORTLAND GENERAL ELECTRIC, Request for a Rate Increase in Oregon Annual Revenues of $13,000,000 for Biglow Canyon.	REPLY TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON

My name is Bob Jenks, and my qualifications are listed in CUB Exhibit 101.

I. Introduction

The parties have reached an agreement in principle on most of the issues in this docket, but were unable to agree on the appropriate methodology for tracking the cost of Biglow over time in a supplemental tariff. Specifically, Biglow Canyon will depreciate over time, but rates will be set based on Biglow's capitalized value in 2008. As long as Biglow Canyon is in a supplemental tariff, and not a part of the Company's general rate base, then Schedule 120, which tracks the cost of Biglow Canyon, should, to the extent reasonable, track the true expected costs of the plant. In order to do this, the return paid by customers on Biglow Canyon's unamortized value needs to be updated annually to reflect Biglow's depreciation and PGE's growing service territory.

II. Background: A Shift In Regulatory Balance

This docket is unusual. Large new investment in generating plant usually comes into base rates through a general rate case, but here, we have agreed to bring these costs into rates through a supplemental schedule. This is not typical for Oregon ratemaking. As the cost of Biglow Canyon is in a supplemental schedule, that schedule should be updated regularly, so that it does not collect more from customers than the capital cost of Biglow Canyon. Updating rate base on an annual basis is also not typical for Oregon ratemaking. We believe this change is necessary, however, to preserve regulatory balance.

Over time, the regulatory balance between customers and shareholders has been shifting such that regulatory lag borne by the utility is being reduced, while regulatory lag borne by customers has remained the same. PGE's application in this case highlights how the use of regulatory lag has changed in ratemaking in an unbalanced way. Regulatory lag has been a part of traditional Oregon utility regulation, and was a healthy part of the balance of risk shared between customers and shareholders. Regulatory lag as it relates to bringing a generating resource into rates, however, appears to have shifted, and stands to shift more as SB 838 is implemented. Regulatory lag as it relates to variable power costs has also changed, and quite dramatically. Both of these changes tend to favor utilities at the expense of ratepayers, and no comparable changes have been made in regulation to balance this shift in cost and risk.

A. Then

Major generating assets are lumpy investments and put a spike in rate base. A utility typically timed a rate case to bring a new generating asset into rates as soon as was practicable after the plant came online. A utility would experience a small amount of regulatory lag in the depreciation of a plant between when the plant came online and when rates including the plant went into effect. Rates would then be set based upon a rate base that included the new plant at its almost fully-capitalized amount. That plant's contribution to rate base would then decline over time as it was amortized, but rate base would not be recalculated for ratemaking purposes until the utility's next general rate case. As a utility earns a rate of return on its rate base, not reducing rate base as it amortizes means that customers systematically over-pay for these large assets in the utility's rate base.

This wasn't necessarily a problem, as, in the past, other costs such as fuel tended to increase over time. Therefore, though customers over-paid in rates as the value of a generating asset depreciated, the utility was expected to absorb increasing costs in other areas. This helped maintain a reasonable balance between customer rates and costs over time. When that balance swung too far in one direction or another, the Commission or the utility could initiate a show-cause or general rate case.

B. And Now

In 2003, PGE got an annual power cost update, the Resource Valuation Mechanism. In 2006, PacifiCorp also got an annual power cost update, the Transition Adjustment Mechanism, and in 2007, PGE got a power cost adjustment mechanism. So, PGE currently has a prospective annual power cost update, now called the Annual Update Tariff, as well as a retrospective power cost adjustment mechanism. As a result, the power cost variations that the Company was once expected to manage between rate cases, are now updated in rates every year, and if actual power costs vary from those forecast by an amount outside of the deadband, 90% of that cost variation is the responsibility of customers.

The Company's regulatory structure prior to 2003 contained no annual power cost update and, only sporadically, contained a power cost adjustment mechanism. The regulatory lag of year-to-year changes in variable power costs between rate cases used to be the Company's responsibility to manage. Now, a great deal of that lag has been eliminated and customers take the risk of those changes. On the other hand, not only has there been no countervailing change in the regulatory approach to maintaining a major generating asset in rates at its capitalized value from the previous rate case, but PGE has also been asking the Commission and the parties to eliminate even the small amount of regulatory lag that a utility would experience between when a new plant comes online and when it is brought into rates. The Company has been filing to bring new generating assets into rates in such a way as to eliminate that regulatory lag, and ensure that not a day of depreciation goes by before an asset goes into rates.

i. Port Westward

PGE filed its general rate case that included Port Westward, such that most of the rate change from that case would go into effect in January, a few months *before* Port Westward was scheduled to come online, and the rates associated with Port Westward would go into effect immediately when the plant came online. Through this additional regulatory process and complexity, the Company could be sure that Port Westward would be included in rate base at the maximum possible value, and customers would continue to pay for the plant at that maximum value until the next rate case.

ii. Biglow Canyon

As with Port Westward, PGE is asking for some regulatory contortion to bring Biglow Canyon into rates. Typically, a utility would file a general rate case to bring a new generating asset into rate base and into rates. In this case PGE is requesting a supplemental tariff addressing only the increase in costs associated with Biglow Canyon. As long as this is a single-issue case, the Company is not at risk for its revenue requirement being reduced to reflect other costs that may have changed, including the decline in rate base associated with existing generating plants.

In defense of its strategy, PGE includes in its filing an estimate of what its revenue requirement request would have been for a general rate case, and points out that this number is higher than what the Company is asking for in this case.[1] We pay little heed to this dubious argument. In addition to the benefit of PGE's Biglow-only request described above, were the Company's costs and revenues materially out of balance, we expect that the Company would have filed a general rate case, not a request for a supplemental tariff.

The Company does give itself a one-month buffer, in filing this case, between when Biglow is scheduled to become operational and when, provided the plant is online, its supplemental tariff goes into effect. However, PGE's testimony suggests that this single month of standard regulatory lag is an inappropriate burden for the utility, and the Company is only willing to accept this regulatory lag if the Company retains all the dispatch benefits of Biglow Canyon before its supplemental tariff goes into effect.

> We believe the impact of any regulatory lag between incurrence of net costs for Biglow and a January 1, 2008, effective date for rates will be minimal provided PGE is allowed to retain the dispatch benefits of Biglow

[1] PGE Pretrial Brief p. 2.

> prior to its going into rates … PGE proposes that any power produced by Biglow Canyon prior to January 1, 2008 be valued for power cost purposes at the monthly average of the Mid-C firm on- and off-peak index for determining actual NVPC under Schedule 126…

PGE/100/Lesh-Dahlgren/3.

iii. PGE Has Reduced Its Regulatory Lag Significantly Over The Last 5 Years

PGE has gone to great length to avoid regulatory lag when a generating plant comes online, but has made no suggestion to mitigate the regulatory lag that customers pay in rates for the return on the non-depreciated value of a plant until the next rate case. So PGE will bear little, if any, regulatory lag as it brings a new generating plant into rate base, will continue to benefit from the regulatory lag that allows the Company to systematically over-charge for the rate base value of generating units, and will bear little, if any, regulatory lag between rate cases of changes in variable power costs that the Company used to be responsible for.

With an apology for this rather long-winded background section, we want to highlight the shifting balance of regulatory lag in ratemaking. No cost estimate or rate forecast will ever be perfect, but they don't need to be and, indeed, they aren't supposed to be. Some costs will be higher than expected, some lower. Utilities bear some regulatory lag and customers bear some. The goal of ratemaking is just and reasonable rates overall, and a balance of regulatory lag has been a healthy part of that. However, the balance of regulatory lag between the Company and customers has shifted considerably over the last five years, and the Company is bearing significantly less regulatory lag while customers have seen no such relief. Our recommendation in this docket is specific to Biglow Canyon's supplemental tariff, but the context within the

Company requests this supplemental tariff is an important backdrop, and could be helpful when the Commission chooses a mechanism to implement cost recovery under SB 838.

III. Biglow Special Schedule Should Track Depreciation & Customers

This docket is not a general rate case. PGE is asking the Commission to approve a supplemental tariff for its Biglow Canyon wind facility. This supplemental tariff will be in place until the Company's next general rate case. PGE proposes to calculate the charge in this supplemental schedule based on Biglow's first-year capital cost and the number of customers during this first year. In the second year of the facility's operation, Biglow Canyon's capital cost will have declined and the number of PGE customers will have increased. PGE, however, does not propose updating either Biglow's supplemental tariff to reflect the declining capital costs associated with Biglow's depreciation or the Company's increasing load. To do so would more-accurately track Biglow Canyon's expected costs, thereby reducing the amount of income that PGE would collect through the Biglow Canyon supplemental tariff.

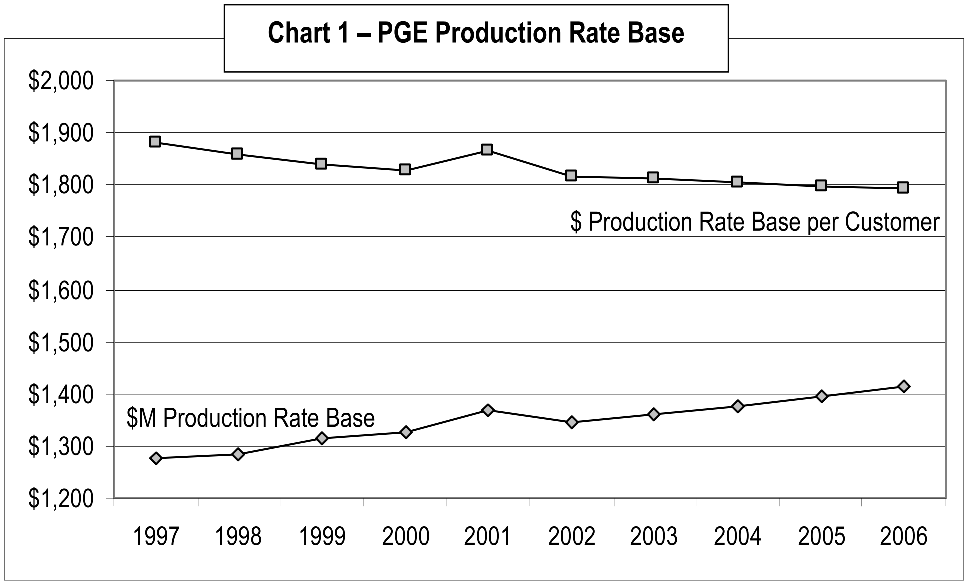
Putting aside, for the moment, the issue of the growing imbalance in regulatory lag that is described earlier, as long as Biglow Canyon is in rates under a supplemental tariff, that tariff should reflect the appropriate cost of the item for which it was designed. PGE may argue that customers should bear the regulatory lag of not including Biglow Canyon's depreciation until the Company's next general rate case, because other costs are sure to go up that are not reflected in rates. However, while other costs may go up and others may go down, this has nothing to do with Biglow Canyon's supplemental schedule. PGE asked for a supplemental schedule for the single purpose of collecting the costs associated with Biglow Canyon. If Biglow Canyon's capital cost and PGE's customer base are not updated each year, this supplemental schedule will collect significantly more from customers than the costs of Biglow Canyon.

Normally, to true-up a utility's rate base to reflect depreciation of a major asset would require a general rate case. However, because Biglow Canyon is in a special supplemental schedule we can easily update it automatically, and ensure that the supplemental tariff only collects the actual cost of the plant. We could also simply wait until the tariff's second year for a party to file a complaint that this supplemental schedule is collecting more from customers than the capital cost of Biglow Canyon, which is what it was authorized to collect. However, because we know that the capital cost of Biglow is depreciating and we know that the Company's customer base is increasing, it makes more sense to simply require the Company to update this supplemental tariff on an annual basis, beginning January 1, 2009.

IV. A Historic Look At PGE Generation Ratebase

CUB Exhibit 102 shows PGE's generation rate base for the past decade, a period without any new major generating resources. While the Company's generation rate base increases nearly every year, that increase in rate base is offset by PGE's growing service territory, such that the per customer amount of production rate base is generally declining. As the following chart demonstrates, PGE's generation rate base on a per customer basis has declined every year except for 2001, which was the year used to establish rates in UE 115.[2]

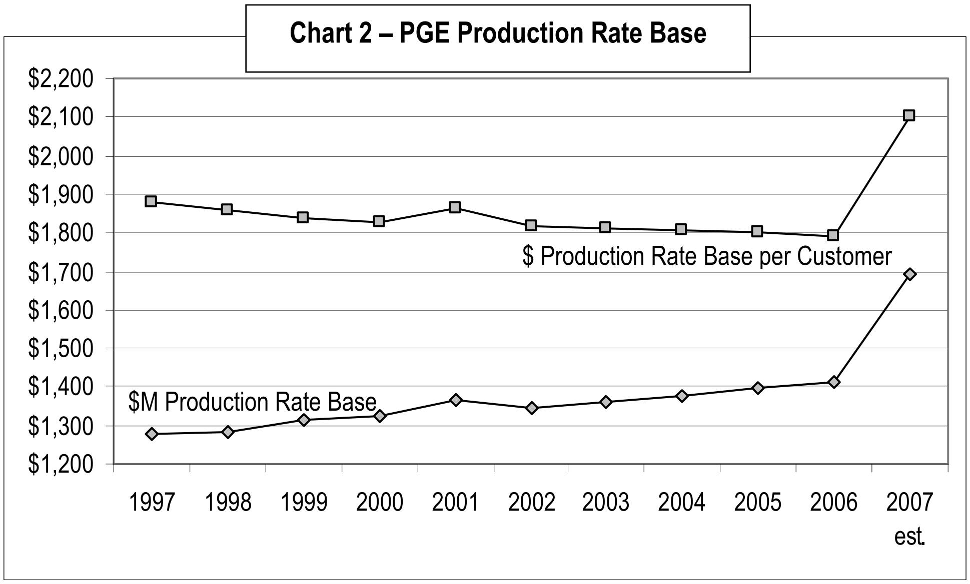
[2] We looked at generation rate base because Oregon uses unbundled costs. In addition, distribution rate base is different from generation rate base in that, as distribution expands for new development, it also brings new customers who will pay into the system for decades.



From this chart, we can see the implications of regulatory lag. In 2001, rates were established and production rate base was $1.37 billion or $1,865 per customer. It was this rate base on which the Company earned its rate of return. The next year, rate base declined by $20 million to $1.35 billion or $1,815 per customer. While PGE's gross production rate base then increased, that increase has not kept pace with customer growth, and, as of the end of 2006, production rate base was only $1,792 per customer. However, because this decline in rate base per customer happens between general rate cases, it is not reflected in customer rates.

With the addition of Port Westward, production rate base will increase again this year by approximately $279 million.[3] When we add Port Westward to the previous chart, we see a dramatic increase both in terms of production rate base and production rate base per customer.

[3] UE 180 OPUC Order No. 07-015 p. 50.



2001 and 2007 represent test years that were used to set rates. In those years, production rate base went up markedly, and rates were set. As production rate base declined in relationship to the number of customers after the 2001 rate case, that decline was not passed through to customers. As Port Westward costs were established in a general rate case, its rate base will not be updated until the next general rate case. Again, customers will not see the benefits in any decline in production rate base as Port Westward depreciates.

In 2008 Biglow Canyon will add another $235 million to rate base, but there will be no concurrent update for the declining rate base of Port Westward and other production facilities. This is not because the rate base associated with these facilities is not declining. PGE Exhibit 204, shows the depreciation associated with its generation plants in 2007.

PGE Plant	2007 Depreciation*
Boardman	$6.7 Million
Colstrip	$6.9 Million
Beaver	$7.5 Million
Coyote Springs	$6.7 Million
Port Westward	$4.6 Million
Hydropower	$5.9 Million

* PGE/204/Tooman-Tinker-Schue/1

The reason customers will not benefit from the 2007 depreciation of these generating assets is because PGE filed to bring Biglow Canyon into rates through a supplemental tariff in a single-issue docket. The use of a supplemental tariff means that costs other than Biglow Canyon, such as the rate base associated with the Company's other generating assets, are not updated, and customers won't see any of the benefit from the declining rate base per customer. This does not mean that a generating plant should never be brought into rates through a special schedule, as we have supported such an arrangement in this docket and for SB 838. Supporting the use of a special, supplemental tariff, however, does not mean that we should ignore the effects of that schedule.

While the supplemental schedule means that customers lose the benefits of declining rate base associated with other plants, it does allow the Commission to update the schedule annually such that customer rates reflect Biglow Canyon's declining rate base. As long as Biglow is in a special supplemental tariff, it should be updated each year, so that customers do not over-pay for the plant's depreciating capital cost. This is fair, since it was not placed into rates in a general rate case that would give customers the benefit of declining rate base associated with all other generating plants.

V. Conclusion

As long as the cost of Biglow Canyon is charged to customers through a supplemental tariff, we recommend that the Commission require PGE to update the Biglow tariff annually to reflect the plant's depreciation and the increasing load of PGE's growing service territory, thereby ensuring that the tariff more-accurately collects the costs it was authorized to collect. The Commission should order PGE to update Schedule 120, Biglow Canyon I Adjustment, on January 1st of each year to reflect to Biglow Canyon's declining rate base and the Company's projected load for that year.

WITNESS QUALIFICATION STATEMENT

NAME: Bob Jenks

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EDUCATION: Bachelor of Science, Economics
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EXPERIENCE: Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 172, UE 173, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, and UM 1209. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates.

Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.

MEMBERSHIP: National Association of State Utility Consumer Advocates
Board of Directors, OSPIRG Citizen Lobby
Telecommunications Policy Committee, Consumer Federation of America
Electricity Policy Committee, Consumer Federation of America

PGE Data From FERC Form 1

Utility Plant ($ millions) p.123.5	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 est.[1]
Production	1277	1285	1,313	1326	1,367	1,347	1,359	1,376	1,395	1,414	
Transmission	318	330	351	359	350	349	277	283	278	283	
Distribution	1159	1234	1,300	1363	1,487	1,577	1,752	1,856	1,959	2,059	
General	224	212	225	234	228	238	241	243	239	242	
Intangible					67	114	116	120	176	172	
Construction Work in Progress					97	81	89	114	177	412	
Total Plant (sum of above)					3,596	3,706	3,834	3,992	4,224	4,582	
Number of Customers (p. 300)[2]	679,186	691,061	714,130	726,039	733,104	741,949	750,544	762,336	775,584	788,883	806,446
MWh Retail	18,254,801	17,443,473	33,643,511	40,251,485	19,040,188	18,771,884	18,425,854	17,764,138	17,540,047	18,432,527	

Numbers and Calculations Used in Graph

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 est.
Production Rate Base ($ millions)[3]	$1,277	$1,285	$1,313	$1,326	$1,367	$1,347	$1,359	$1,376	$1,395	$1,414	$1,693
Production Rate Base per Customer	$1,880	$1,859	$1,839	$1,826	$1,865	$1,815	$1,811	$1,805	$1,799	$1,792	$2,099

1. An estimation based on adding Port Westward to the 2006 production rate base.
2. For 2007, the number of customers comes from PGE Advice Filing 07-15 Work Paper 13.
3. For 2007, production rate base is the sum of 2006 and $279 million for Port Westward from OPUC Order No. 07-051 at 50.

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of June, 2007, I served the foregoing Reply Testimony of the Citizens' Utility Board of Oregon in docket UE 188 upon each party listed below, by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,

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The Citizens' Utility Board of Oregon

W=Waive Paper service, C=Confidential, HC=Highly Confidential

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