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March 16, 2006

Via U.S. and Electronic Mail

Ms. Carol Hulse
Oregon Public Utility Commission
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff
Request to Open an Investigation Related to Deferred Accounting
Docket No. UM 1147

Dear Ms. Hulse:

Enclosed please find an original and six (6) copies of the Opening Comments of the Industrial Customers of Northwest Utilities Regarding Interest Rates in the above-captioned Docket.

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

Sincerely yours,

/s/ Anna E. Studenny
Anna E. Studenny

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Opening Comments of the Industrial Customers of Northwest Utilities Regarding Interest Rates upon the parties listed below, listed on the official service list for Docket No. UM 1147, by causing the same to be mailed, postage-prepaid, through the U.S. Mail, and by service via electronic mail.

Dated at Portland, Oregon, this 16th day of March, 2006.

/s/ Anna E. Studenny
Anna E. Studenny

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1147

In the Matter of)	
)	
PUBLIC UTILITY COMMISSION OF)	OPENING COMMENTS OF THE
OREGON)	INDUSTRIAL CUSTOMERS OF
)	NORTHWEST UTILITIES REGARDING
Staff Request to Open an Investigation)	INTEREST RATES
Related to Deferred Accounting.)	
_____)	

Pursuant to the status conference memorandum issued in Public Utility Commission of Oregon (“OPUC” or the “Commission”) Docket No. UM 1147 on January 25, 2006, the Industrial Customers of Northwest Utilities (“ICNU”) submits the following Opening Comments, urging the Commission to apply a different in interest rate to deferred accounts.

In Order No. 05-1070, the Commission ordered additional consideration of whether to modify the Commission’s existing policy of applying an interest rate to deferred accounts that is equal to the utility’s authorized rate of return. The Commission asked the parties to address three questions in a subsequent phase of UM 1147:

- 1) Should the Commission apply a different interest rate to authorized deferred accounts during amortization?
- 2) If the Commission should apply a different interest rate, what rate should apply?
and
- 3) How would the interest rate apply to deferred accounts that are currently accruing prospective deferrals and accounts under the provisions of the Pacific Northwest Electric Power Planning and Conservation Act of 1980?

The parties agreed at the prehearing conference to provide comments regarding the first issue stated above and wait for a Commission order to determine if addressing the second and third issue was necessary.

DISCUSSION

ICNU believes that it is appropriate to apply a different interest rate to authorized deferred accounts during amortization. As previously described in this proceeding, the current practice of authorizing a utility to earn interest on a deferral balance at the utility's authorized rate of return allows the utility to benefit from the deferral of costs when short-term interest rates are lower than that level. Many deferred accounts are recovered over a relatively short period of time for which a short-term interest rate is more appropriate. Furthermore, Staff has correctly pointed out that deferred accounts do not pose the same level of economic risks as do long-lived assets, which reduces the overall level of risk for utilities. Staff Opening Comments at 2-3 (Jan. 18, 2005). Finally, a utility's authorized rate of return includes a return on equity. It is inappropriate to allow equity returns on deferred balances. An interest rate other than the utility's authorized rate of return is more appropriately applied to deferred account balances.

ICNU supports a Commission policy that applies an interest rate that is equivalent to the utility's cost of short-term debt. ICNU also would support, as an alternative, Staff's proposal to apply a one-year treasury rate to deferred accounts under ORS § 757.259(2)(b) and (c) and an average rate of the one-, three-, and five-year rates, recalculated each quarter, for all other deferred accounts. Id. at 1-3.

Dated this 16th day of March, 2006

Respectfully submitted,

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