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VIA E-FILING & FIRST CLASS MAIL

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

Re: *UM 1147*

Attention Filing Center:

Enclosed for filing in the above-referenced docket are the original and five copies of the Opening Comments of Portland General Electric Company (Phase II). This document is being filed electronically per the Commission's eFiling policy to the electronic address PUC.FilingCenter@state.or.us, with copies being served on all parties on the service list via U.S. Mail. A photocopy of the PUC tracking information will be forwarded with the hard copy filing.

Very truly yours,

A handwritten signature in black ink that reads "David F. White".

David F. White

DFW/ldh
Enclosures
cc: Service List
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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1147**

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Staff Request to Open an Investigation
Related to Deferred Accounting.

**OPENING COMMENTS OF PORTLAND
GENERAL ELECTRIC COMPANY
(PHASE II)**

In Order No. 05-1070, the Commission decided to continue its investigation of the current policy of applying an interest rate to deferred accounts that is equal to the utility's authorized cost of capital. Order No. 05-1070 at 14. The Commission authorized a second phase of this docket to consider whether it should change that policy. ALJ Kirkpatrick adopted a phased schedule according to which parties first file comments on the threshold issue of "whether a different rate of interest should be applied to authorized deferred accounts during amortization." Prehearing Conference Memorandum at 1 (dated Jan. 25, 2006). PGE's opening comments on the threshold issue are set forth below.

I. THE COMMISSION SHOULD NOT DEPART FROM ITS CURRENT POLICY

The reason offered for applying a different interest rate to deferred accounts is the perception that these utility investments or expenditures "do not pose the same earnings and economic risks as do rate-based, long-lived assets." Order No. 05-1070 at 12 (quoting from comments in phase I of this docket). Consequently, some contend that the Commission should reduce the interest rate applicable to deferred accounts to reflect a lower risk of recovery. This proposal includes no corresponding adjustment to compensate utilities for higher risk investments.

This proposal is a selective and discriminatory change in Commission policy that is inconsistent with how the Commission sets rates in general rate cases. No one in this docket has disputed that utilities fund deferred accounts just like any other capital investment or expense. PGE's investments, including deferred accounts, come from an unspecified mix of debt and equity. When the Commission sets a utility's cost of capital, it does not differentiate the risk of recovery for particular expenditures or investments. The Commission considers the overall risk facing the utility. The Commission applies a utility's authorized rate of return to all utility investments.

The choice for the Commission is the following: compensate utilities for the risk they bear on an investment-by-investment basis or continue the Commission's current policy of compensating the utilities for the overall risk they face. In Order No. 05-1070, the Commission rejected a change in policy:

We agree with the utilities that the Commission currently does not examine, in a general rate case, the risk of recovery associated with individual utility accounts. We also agree that the Commission should not undertake this exercise as a general practice. The rate of return set in a general rate case for each utility shall continue to reflect an assessment of the overall level of financial risk faced by the utility with regard to forecasted costs and revenues.

Order No. 05-1070 at 14.

The approach suggested in this docket, which would selectively lower the interest rate for deferred accounts without making corresponding adjustments for higher risk investments, cannot be squared with the Commission's practice for setting a utility's rate of return. The Commission should reject this unprecedented change in policy.

II. A FOCUS ON COMMISSION AUTHORIZATION TO AMORTIZE IS INAPPROPRIATE

The Commission asked for comments regarding the import, if any, of the distinction between the risk of "recovery before and after amortization of a deferred account is authorized" and whether a different interest rate should apply during amortization. Order

No. 05-1070 at 14. The distinction between before and after the amortization order should not affect the applicable interest rate.

Even assuming for the moment that the relative risk of recovery for deferred accounts is relevant, a singular focus on the period after the amortization order is inappropriate. The relevant risk to the utility is the possibility that it will not recover its investment. For deferred accounts, that risk includes the possibility that recovery of the utility's investment may be discounted based upon (a) a prudence review, (b) earnings test, (c) sharing or deadbands in the deferral mechanism, or (d) the incursion of costs before the filing of a deferred accounting application. These risks occur, if at all, before the Commission issues its amortization order. But that does not render the risks irrelevant. It does not eliminate the risk. In many cases, the amortization order will confirm that risk.

Consider the power cost deferrals associated with the California energy crisis. After deadbands, sharing and other adjustments, the Commission permitted PacifiCorp to defer just over 50 percent of its Oregon share of excess power costs. UM 995, Order No. 02-469 at 2. Of PacifiCorp's \$259 million in access power costs allocated to Oregon, the Commission authorized the deferral of only \$130 million for recovery. *Id.* An order authorizing amortization of \$130 million does not eliminate PacifiCorp's risk. The amortization order confirms that risk.

A focus on the amortization order is symptomatic of the fundamental problem with the changes suggested. They are asymmetric and unbalanced. They would lower the interest rate for low risk investments without increasing the interest rate for high risk investments. They would lower the interest rate after the amortization order without increasing the interest rate before the amortization order. For deferred accounts, the risk runs from the time of the investment until recovery and applies to the entire utility investment, not just the amount the Commission authorizes for amortization. The power cost deferrals reveal that the risk can be quite high. If the Commission changes the interest rate that applies after the amortization order (presumably to reflect a lower risk level), it is only fair that the Commission also increase the

interest rate for the period before the amortization order to reflect the risk of non-recovery that (in many cases) has come to fruition. Once again, the proponents of a change in Commission policy are seeking a one-way change only.

The power cost deferrals underscore another important point: customers may not benefit if the Commission sets the interest rate for deferred accounts based on the specific risk level of the deferred account and varies the interest rate over time. Proponents of a change in the Commission's policy assume that the risk for deferred accounts is lower than traditional rate base items. But no one has offered evidence to support this position. The power cost deferrals suggest that it is incorrect. Non-recovery of close to 50 percent of a utility's expenditures is a very steep discount rate, one that likely exceeds the risk associated with "rate-based, long-lived assets."

DATED this 16th day of March, 2006.

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CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **OPENING COMMENTS OF PORTLAND GENERAL ELECTRIC COMPANY (PHASE II)** by mailing a copy thereof in a sealed envelope, first-class postage prepaid, addressed to each party listed below, deposited in the U.S. Mail at Portland, Oregon.

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