BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1147

In the Matter of	)	
	)	OPENING COMMENTS OF THE
PUBLIC UTILITY COMMISSION OF	)	INDUSTRIAL CUSTOMERS OF
OREGON	)	NORTHWEST UTILITIES REGARDING
	)	THE APPLICABLE INTEREST RATE ON
Staff Request to Open an Investigation	)	DEFERRED ACCOUNTS DURING
Related to Deferred Accounting.	)	AMORTIZATION
	)	

I. INTRODUCTION

Pursuant to the Prehearing Conference Memorandum issued on June 14, 2007, the Industrial Customers of Northwest Utilities ("ICNU") submits the following Opening Comments in Phase III of this Docket, responding to the issues related to the interest rate to be applied to deferred accounts during amortization that the Oregon Public Utility Commission ("OPUC" or the "Commission") identified in Order No. 06-507. These are extremely important issues in light of the amount of deferrals expected due to the passage of Senate Bill 838. ICNU urges the Commission to:

1. Adopt Staff's proposal to apply an average rate of the one-, three-, and five-year treasury rates, recalculated annually for the amortized portions of deferred accounts.

2. Apply the new interest rate to all future deferred accounts and all accounts currently on a utility's books, including those accounts currently accruing prospective deferrals and currently in amortization.

3. Make clear that any differential treatment of Idaho Power Company ("Idaho Power") be limited to the specific facts and circumstances of Idaho Power's situation.

4. Reject any proposal for a materiality threshold.

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II. BACKGROUND

On April 27, 2004, Staff requested that the Commission open this Docket to investigate deferred accounting practices. The initial round of comments addressed a number of issues regarding deferred accounting, including the statutory requirements and the exercise of the Commission's discretion. In Order No. 05-1070, the Commission resolved most of the issues raised by the parties, but left open the following questions: 1) whether to apply an interest rate other than a utility's authorized rate of return to deferred accounts during amortization; 2) if so, what the rate should be; and 3) how to apply a new interest rate to deferred accounts currently accruing prospective deferrals and accounts related to the Pacific Northwest Electric Power Planning and Conservation Act of 1980 ("1980 Act"). Re Staff Request to Open an Investigation Related to Deferred Accounting, OPUC Docket No. UM 1147, Order No. 05-1070 at 14 (Oct. 5, 2005). Accordingly, the Commission directed that a second phase ("Phase II") of the Docket be conducted to resolve those issues. Id.

On January 24, 2006, a prehearing conference for Phase II was held and the parties agreed to limit the issue to whether an interest rate other than a utility's authorized rate of return should apply to accounts during amortization. In Order No. 06-507, the Commission held that it was not appropriate to apply an interest rate equal to a utility's authorized rate of return to deferred accounts during amortization. Re Staff Request to Open an Investigation Related to Deferred Accounting, OPUC Docket No. UM 1147, Order No. 06-507 at 4 (Sep. 6, 2006). The Commission's decision was based on the minimal risk of disallowance that utilities face during amortization. Id. at 4-5. The Commission, however, left open for consideration in this phase of the docket: 1) what the interest rate should be on deferred accounts during amortization and how

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that rate should be established; 2) whether Idaho Power should be treated differently; 3) how a new interest rate should be applied to deferred accounts that are currently accruing prospective deferrals; and 4) how a new interest rate should be applied to accounts under the 1980 Act. Id. at 6.

A workshop was held on August 15, 2007, where the parties identified two additional issues: 1) whether a materiality threshold should be established under which the new interest rate would not apply; and 2) whether the new interest rate should be applied on a prospective basis only. In addition, PacifiCorp, Portland General Electric Company ("PGE"), Idaho Power, and Northwest Natural Gas were asked to provide a listing of all deferred accounts on the utilities' books and indicate: 1) what type of revenue or cost was deferred; 2) when the deferral was amortized; 3) the time period of the deferral; 4) the balance as of June 30, 2007; and 5) whether the Commission has granted approval for amortization, and if so, the amortization period and amount per year. The utilities provided the parties this information on August 29, 2007, and PGE provided an updated list on August 31, 2007.

III. DISCUSSION

A. The Commission Should Apply Staff's Blended Treasury Rate Proposal to Deferred Accounts During Amortization

As the Commission previously recognized, "the amortized portion of a deferred account is a short-term, fixed investment that will be recouped." Order No. 06-507 at 6 (parenthetical omitted). Based on these characteristics, it is more appropriate for the Commission to apply a short-term interest rate to deferred accounts during amortization. There is no basis to "compensate" utility shareholders for the risk of disallowance since such risk does not exist at the amortization stage.

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ICNU supports Staff's previous proposal to apply an average rate of the one-, three-, and five-year treasury rates for deferred accounts during amortization. See Staff Opening Comments at 1-4 (Jan. 18, 2005). Staff's proposal results in the application of a fair and reasonable rate of return for amortized portions of deferred accounts and eliminates the need to establish different interest rates dependent on the length of the amortization period. For example, an amount amortized over a one-year period will earn more than a one-year treasury rate, while an amount amortized over five years will earn less than a five-year treasury rate.

Instead of a quarterly recalculation as stated in Staff's previous proposal, however, the Commission should only require the rate to be recalculated annually. Limiting the rate of return to an annual recalculation addresses other parties' concerns regarding the administrative complexity of applying Staff's proposal. See PacifiCorp's Phase II Opening Comments at 5 (Mar. 16, 2006).

B. The New Interest Rate Established by the Commission Should Apply to All Deferred Accounts

The new interest rate for deferred accounts during amortization should apply to all deferred accounts, including those accounts that are currently accruing prospective deferrals and those accounts that are currently being amortized. ICNU believes that applying the same interest rate to all accounts would be the most reasonable and equitable application.

For accounts that currently have amounts in amortization, the new rate of return could simply be applied to all amortized dollars as of the date of the Commission's order establishing the new interest rate. Such an application would not be unduly burdensome or complex, and would immediately stop utilities from being overcompensated for little to no risk of disallowance.

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C. The Commission Should Make Clear That Any Differential Treatment of Idaho Power Is Limited to Idaho Power's Specific Circumstances

ICNU takes no position on whether a different interest rate should apply to the amortization of Idaho Power's deferred accounts. Should the Commission choose to treat Idaho Power differently, however, the Commission should make clear that the differential treatment is limited to the specific facts surrounding Idaho Power and has no impact on the treatment of PGE and PacifiCorp.

D. The Commission Should Reject Any Proposals for the Adoption of a Materiality Threshold

At the August 15, 2007 workshop, parties expressed the need to adopt a materiality threshold exempting small deferred accounts, such as accounts established for intervenor funding, from the new interest rate. A utility should not be unproportionately compensated for the risk of disallowance, no matter how small the amount. Moreover, determining what constitutes a small deferral will create unnecessary controversy. ICNU believes a materiality threshold is unnecessary and would only serve to further complicate matters.

IV. CONCLUSION

For the foregoing reasons, the Commission should adopt Staff's blended treasury rate proposal and apply such rate to all deferred accounts during amortization, including those accounts that are currently accruing prospective deferrals and currently have amounts in amortization.

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Dated this 12th day of September, 2007.

Respectfully submitted,

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September 12, 2007

Via U.S. and Electronic Mail

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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 Filing Center:

Enclosed please find an original and one copy of the Opening Comments of the Industrial Customers of Northwest Utilities in the above-captioned Docket.

Thank you for your assistance.

Sincerely yours,

/s/ Christian Griffen
Christian W. Griffen

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 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 12th day of September, 2007.

/s/ Christian Griffen
Christian W. Griffen

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