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January 18, 2005

VIA FACSIMILE, ELECTRONIC AND FIRST CLASS MAIL

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

Re: UM 1147, PGE Opening Comments

Dear Ms. Hulse:

Enclosed for filing in the above-referenced docket are the original and five copies of Opening Comments of Portland General Electric Company.

Sincerely,

David F. White

DFW/pcs
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**

We appreciate the opportunity to submit these Opening Comments in the Commission's investigation of its deferred accounting policy. The Commission has now had almost 18 years of experience with the deferred accounting statute, and in recent years some uses of deferred accounting have generated controversy and uncertainty. This docket provides an opportunity to take stock of how the Commission has used deferred accounting in the past, to evaluate both the successes and difficulties of the practice, and to determine how the Commission should use deferred accounting in the future as one of many ratemaking instruments.

The Commission should use this docket to remove uncertainty and settle expectations regarding how deferred accounting fits within the Commission's larger ratemaking framework. On the other hand, the Commission should not adopt rigid rules that will handcuff it in future deferred accounting proceedings. The legislature has granted the Commission broad authority to use deferred accounting. Deferred accounting is a useful ratemaking tool, beneficial to both customers and utilities, in a wide range of situations. It implements ongoing ratemaking mechanisms such as purchased gas adjustments and power cost adjustments, it furthers important Commission policies such as intervenor funding and demand side management, it allows the Commission to address extraordinary and unanticipated events, and it gives the Commission the

ability to address "perfect storm" scenarios such as the California energy crisis. And the Commission has appropriately used deferred accounting in each of these circumstances. The Commission should adopt deferred accounting policies that are consistent with its deferred accounting practice and are flexible enough to respond to the next "perfect storm."

The ALJ's ruling canceling the workshop/public meeting requested that the parties indicate "whether oral argument should be conducted." We believe the parties should be provided an opportunity to make live presentations to the Commission after the filing of reply comments.

We have organized the remainder of our Opening Comments as follows: (1) a summary of recommendations; (2) a brief description of what deferred accounting is, how the Commission has used it, alternatives to it, and what role deferred accounting and other ratemaking alternatives should play; and (3) a more detailed discussion of our specific recommendations.

I. Summary of PGE's Recommendations

We recommend the following:

1. The Commission should not apply a mechanical "materiality requirement" or a "normal risk range" for deferral applications. (*See* Issues #1 and #2[1]). In exercising its discretion, the Commission should consider a variety of factors including the purpose of the deferred accounting application, the type of event giving rise to the application, the prior ratemaking treatment of the expense or revenue item, and (in some cases) the financial impact of the expense or revenue items. A materiality requirement may apply in some cases based upon whether or

[1] Numbered Issues identified in these Opening Comments refer to the list of issues attached as Appendix A to the ALJ's November 5, 2004, ruling.

not a certain level of variation is included in base rates for the revenue or expense item that is the subject of the deferred accounting application. Even where a materiality requirement applies, the level of the materiality requirement may vary depending upon the level of variation included in base rates. The Commission should not apply a rigid stochastic/scenario test.

2. The existing Commission rules are sufficient to provide notice to all parties concerning the reason for the deferred accounting request, the cost or revenue item to be deferred, and the deferral mechanism. (Issue #3). The Commission should not impose further requirements that may result in revenues or expenses being disallowed on the basis of technical filing requirements. The Commission should consider the merits of specific proposed deferral tracking mechanisms on a case-by-case basis in the applicable Commission proceeding.

3. A utility's current authorized cost of capital should continue to be used as the interest rate for all deferred balances (Issue #4).

4. The Commission should adopt additional procedural rules to govern the processing of deferred accounting applications (Issue #5). These rules should: (i) require the Hearings Division to hold a prehearing conference within 30 days of the application; (ii) require the Commission to issue a final order within 180 days of the filing of the application; and (iii) establish a deadline for requests to hold a hearing on the application.

5. Alternatives to deferred accounting include a general rate case, single-issue rate case, interim rate relief, specific tariffs or ongoing mechanisms, and accounting orders/treatment (Issue #6). The Commission should consider these alternatives

in fashioning a deferred accounting policy that enables its use when that is most advantageous to the Commission's ratemaking goals.

6. The Commission's deferred accounting practices should ensure symmetrical treatment for deferrals that hold balances in customers' favor and deferrals that hold balances to be recovered from customers (Issue #7). In particular, to the extent the Commission considers the materiality of costs or revenues for which deferred accounting is sought, it should do so on an even-handed basis.

7. The Commission should not impose an overall cap on the amount a utility can defer (Issue #8). The deferred accounting statute already provides a cap on amortization.

8. The Commission should follow its precedent in determining whether or not an applicant has proven that the deferral will either (a) minimize the frequency of rate changes or fluctuation of rate levels or (b) match ratepayer benefit and costs (Issue #9).

9. Deferred accounting should be available in those circumstances in which the Commission determines it is an appropriate ratemaking tool. Those circumstances include but are not limited to cost or revenue changes that are extraordinary, unanticipated, and non-recurring (Issue #10).

II. Deferred Accounting: What Is It, How Has It Been Used, and What Are the Alternatives?

This docket presents a number of policy choices for the Commission. The legal authority delegated to the Commission is broad and does not impose or require the limitations some propose in this docket. So long as the application fits within one of the expansive categories eligible for deferrals, there are no statutory limitations on the Commission's exercise of

discretion to use this ratemaking tool. The central questions in this docket are matters of regulatory policy: (1) when does deferred accounting provide an appropriate ratemaking tool to lower cost for customers, protect the financial stability and health of the utility,[2] and advance important Commission goals; and (2) will the Commission's general deferral policy be flexible enough to accommodate the wide range of circumstances in which the Commission uses deferred accounting and the demands that may be placed on it in the future?

A. What Is Deferred Accounting?

Deferred accounting allows utilities to capture cost and revenues, hold them, and then pass through those costs or revenues to customers at a later time as authorized by the Commission. The Commission's deferred accounting practice dates back at least to the 1970s. *See* the Legislative History of the Deferral Statute prepared by participants in the informal phase of this docket, Exhibit 1. It serves a number of functions.

Deferred accounting protects utilities and customers from extraordinary events that could not be anticipated in a general rate case. Utilities have an unconditional duty to serve, imposed by law and the recognition that the utility must provide heat and power when customers need it. Customers have the protection of cost-of-service rates that prevent the utility from receiving monopoly profits. When extraordinary events occur, the utility should receive its cost of service – no more and no less. Deferred accounting is the best ratemaking mechanism for such unexpected, extraordinary events. It also provides a way for the Commission to recognize these unexpected and short-term cost or revenue changes, without creating rate instability. Finally, it empowers the Commission to provide an incentive (i.e., cost recovery through deferred

[2] ORS 756.040 authorizes and obligates the Commission to set rates that (i) balance the interests of utility investors and customers and (ii) are sufficient to ensure confidence in the "financial integrity of the utility, allowing the utility to maintain its credit and attract capital." ORS 756.040(1).

accounting) for utilities to engage in conduct that furthers important Commission goals and public policies.

The Commission's deferred accounting practice came under attack in the late 1980s. In 1987, Commissioner Davis asked the Oregon Attorney General's office for a legal opinion concerning the Commission's legal authority for its deferred accounting practice. The focus of the Attorney General's opinion was the rule against retroactive ratemaking, which generally prohibits the use of previously incurred expenses or previously collected revenues to set future rates. The Attorney General concluded in categorical terms that the rule prohibited the use of deferred accounting unless expressly authorized by statute, and, at that time, there was no express statutory authority for the practice. *See* Exhibit 1 at 1-2. The Oregon Legislature quickly filled the void by enacting the deferred accounting statute, just a few months after the Attorney General's opinion.

During its consideration of the initial deferred accounting statute, the 1987 Legislature heard various objections to the Commission's deferred accounting practice. Some complained that the practice favored utilities and generally reflected increased utility costs. Others complained that the Commission's deferral practice did not afford meaningful opportunity for public comment and participation. *See* Exhibit 1 at 3. The 1987 Legislature addressed these concerns by placing significant procedural safeguards in the deferred accounting statute.

Those safeguards remain in place today. They include the following:

- The utility must seek Commission authorization in a separate proceeding under ORS 757.210 before recovering the deferred balance (ORS 757.259(5));

- The Commission applies an earnings test before authorizing recovery of a deferred balance to ensure that recovery will not result in overearning or underearning (ORS 757.259(5));
- Caps are placed on the total deferred amount that can be amortized in any one year (ORS 757.259(6));
- The availability of deferred accounting upon an application by not only the utility but also by customers, Commission Staff, and the Commission (ORS 757.259(2));
- Public notice of each deferred accounting application (ORS 757.259(2)); and
- Deferrals available for costs or revenues (ORS 757.259(2)(e)).

As Representative Eachus said:

> We've established the process that is balanced and allows either the utility, the Commission or the ratepayers to initiate a deferral. And it is not only costs to a utility but also for benefits to the ratepayers.

See Legislative History, Exhibit 1 at 3.

Since enactment of the initial deferred accounting statute, the legislature has provided still further protections. Parties may now require a hearing concerning the deferred accounting application itself (in addition to the hearing that is available at the amortization phase). ORS 757.259(2). And recovery of a deferred balance is now subject to a Commission finding of prudence. ORS 757.259(5).

B. The Commission's Deferred Accounting Practice

How has the Commission used the deferred accounting statute? In the informal phase of this investigation, the utilities shared lists of Commission-authorized deferrals. The lists are

attached as Exhibit 2.[3] The lists dispel the two often-repeated myths about deferred accounting. First, the number of deferrals has not exploded as many claim. In fact, the number of deferrals is quite modest. Second, the Commission's practice has not been one-sided in favor of utilities. The deferred accounts reflect a substantial number of refund balances in favor of customers.

The Commission's deferred accounting practice fits into at least four categories: (1) deferrals that support tariffs or other ratemaking mechanisms; (2) deferrals for extraordinary and unanticipated events; (3) deferrals that permit a utility to recover its costs in order to encourage conduct that is authorized by statute or which is consistent with Commission policy; and (4) deferrals that facilitate the resolution of a rate case item that is hard to forecast.

The deferrals that implement ongoing power cost adjustment accounts, purchase gas adjustments, and distribution decoupling are examples of the first category of deferrals. *In re PGE*, UM 1039, Order No. 02-400 (PGE's PCA); *In re Investigation of PGAs*, UM 903, Order No. 99-272 (PGA); *In re NW Natural*, UG 143, Order No. 02-634 (decoupling). In each case, the Commission approved a tariff or ratemaking mechanism that required a true-up or balancing account mechanism. Because these mechanisms look backwards to capture past costs and revenues for incorporation into future rates, the mechanisms require a deferred accounting order to avoid retroactive ratemaking concerns. In these examples, the underlying tariff and ratemaking method drive the form and content of the deferred accounting order. Deferred accounting practices and policies act in a supporting role. Deferred accounting does not dictate the terms. It simply implements the terms established by the underlying mechanism.

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[3] PGE has made minor changes to its list to eliminate deferral applications that were withdrawn or denied. We expect that the lists of approved deferrals attached as Exhibit 2 will become part of the stipulated record in this docket. *See* ALJ Ruling dated November 5, 2004, at 2.

The second category includes the deferrals related to the tax kicker refunds, unexpected plant outages, and the 2000-2001 California energy crisis. *In re PGE*, UM 815, Order No. 96-282 (tax kicker); *In re PGE*, UM 594, Order No. 93-1493 (Trojan Plant Outage); *In re PacifiCorp*, UM 995, Order No. 02-469 (2000-2001 energy crisis, hydro shortfall and Hunter outage).

The third category includes deferrals for SB 1149, demand side management ("DSM"), energy efficiency ("EE"), and intervenor funding. In each of these cases, the Commission has a concrete policy or statutory goal it seeks to foster and promote. The goals range from making direct access and portfolio options available to, and understood by, customers (SB 1149) to promoting demand side management and energy efficiency as important components of a comprehensive least-cost planning policy (DSM/EE programs) and encouraging the participation of organizations representing broad customer interests (intervenor funding). Deferred accounting allows the Commission to provide an incentive for utilities to take actions necessary to accomplish these Commission policies.

The fourth category involves deferrals that arise out of a rate case to resolve cost items that are particularly hard to forecast. In PGE's last general rate case, these included deferrals for IT capital investments and advertising costs. UM 115, Order No. 01-777. PGE's 2004 RVM proceeding spawned a coal transportation contract deferral that fits this description. UM 1126, Order No. 04-170. The most recent rate case for Northwest Natural resulted in a deferral to handle unpredictable, hard-to-forecast items. *In re NW Natural*, UG 152, Order No. 03-507 (approving pension expense deferral). This type of deferral can save money for customers and allows the Commission to ensure that ratepayers pay no more than the prudently incurred costs.

Nevertheless, these deferrals have been a target of criticism recently. *See* ICNU letter to Commission, dated September 16, 2004, in UM 1040.

C. How Does Deferred Accounting Complement the Commission's Other Ratemaking Tools?

Finding the best policy for deferred accounting requires consideration of the alternative ratemaking methods and the comparative advantages of each alternative:

- General Rate Case. These proceedings usually take about 10 months and involve overall changes to rates. They permit the Commission to take a comprehensive look at costs and revenues and establish new rates. Regulatory lag gives the utility the incentive to find cost savings and efficiencies that are eventually passed through to customers, while disciplining longer-term expenditure commitments and investments.
- Single-Issue Rate Case. These proceedings focus on a single issue or set of issues and can in many cases be resolved quicker than the normal 10-month schedule that applies to a general rate case. These often occur shortly after a general rate case when there is a significant change in a revenue requirement item. For administrative convenience, the proceeding will focus on the single issue and not revisit other revenue requirement issues resolved in the general rate case.
- Interim Rate Relief. This is a modification of the first two methods. It usually involves a sudden change in some revenue requirement figures that are generally undisputed and that are likely to be permanent. The rate change is made immediately but subject to refund. The immediacy of the rate change sends appropriate price signals to customers. Interim rate changes were fairly common in the 1970s, but the Commission has rarely used them in recent years.

- On-Going Tariffs or Mechanisms. These mechanisms include PGAs and decoupling for gas utilities, the SAVE program for PGE (UE 79, Order No. 91-98), and ongoing PCAs (UM 1039, Order No. 02-400). These mechanisms reflect fundamental Commission choices for handling costs that frequently change. Tracking them has the twin advantages of preserving the utility's financial health and protecting customers from paying more than they should. These mechanisms also may neutralize a utility's disincentive to invest or encourage reductions in energy consumption. These mechanisms operate through deferred accounting orders but the Commission's underlying policy, not some abstract notion of what deferred accounts should look like, drives the structure of the deferred accounting order.
- Accounting Orders. Accounting orders generally permit the utility to account for expenses or revenues in a prescribed manner. In this context, these orders may permit the utility to treat expenses as capital costs because the expenses will benefit future customers. *See In re PacifiCorp*, UM 927, Order No. 99-276 (ordering capitalization of Y2K expenses).

What conclusions can we draw from this examination of the available ratemaking tools? Deferred accounting has a comparative advantage in a variety of very different circumstances. First, when a Commission-approved mechanism involves a true-up or balancing account, deferred accounting is necessary to make the mechanism work and avoid retroactive ratemaking concerns. Second, it is superior in its ability to handle sudden, non-recurring events that are hard to anticipate. The speed of a deferred accounting application and its true-up features work to minimize time delay and ensure that customers pay only for prudently incurred costs, giving it an

advantage over other ratemaking tools in this circumstance. Third, it can be an important mechanism to give utilities an incentive, or remove a disincentive, to further important Commission goals. This is particularly true when the Commission goal or policy arises between rate cases, or when the duration of the Commission program is uncertain and the cost associated with the program may not be recurring. Fourth, it gives the Commission an important tool to facilitate rate case settlements.

III. Detailed Discussion of Recommendations

Issue 1: Should the requirements for a deferred request differ depending on the circumstances underlying the request, e.g., materiality requirements that differ depending on whether the costs at issue are associated with stochastic risk or scenario risk?

A. The Commission should retain a flexible approach that does not apply a materiality test to all deferred accounting applications.

The participants in this docket have generally agreed on the first part of this issue. The Commission's evaluation of an application for deferred accounting must depend upon the specific facts and circumstances of the deferred accounting request. To our knowledge, no party is proposing that all deferrals must satisfy the same rigid standard. All parties recognize that the Commission's policy for deferred accounting must be flexible enough to take into account the purpose of the application and the specific facts and circumstances of a specific request. The broad range of circumstances in which deferred accounting is used and the diverse purposes it serves, demands such a flexible approach.

The parties appear to agree that a stochastic/materiality test is inapplicable to most categories of deferred accounting applications. Even those parties that support a stochastic/materiality test have concluded that such a test should not apply to on-going rate

making tariffs such as power cost adjustment clauses and the purchased gas adjustment.[4] Everyone appears to agree that the Commission should not place a materiality limitation on deferrals authorized by statute or which provide an incentive for utilities to engage in certain programs[5]. Finally, no one has proposed that a materiality test should apply to deferrals that facilitate a rate case settlement unless the specific terms of the settlement require one.

We agree with other parties' positions. No sound policy reason supports such a limitation for deferrals that are (1) tariff-based, (2) supporting a Commission policy or removing a disincentive, or (3) a rate case settlement tool. If a materiality threshold applies in any of these cases, it should be developed in the context of the specific deferral application and not legislated as a general Commission policy. A one size fits all materiality test is simply unworkable given that deferred accounting may apply to a broad spectrum of expenses and revenues ranging from power costs to intervenor funding to rate case settlement items.

Such a flexible approach is consistent with the Commission's most recent substantive discussion of a deferred accounting application. In Commission Order No. 04-108, the Commission considered two factors in deciding whether to grant a deferral application: (1) the type of event that caused the request for deferral and (2) the magnitude of the event's impact. *Id.* at 8. However, the Commission underscored the flexibility of its approach. Neither of these two factors is dispositive. *Id.* The Commission considered the materiality of the financial impact as a factor but it need not make its decision on that basis. *Id.* Ultimately, the Commission determined that the deferral application should be rejected because a certain level of variability

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[4] *See, e.g.*, Staff Opening Comments on Issues List (October 11, 2004), at 3.
[5] *See, e.g.*, CUB Opening Comments (October 11, 2004), at 3.

in hydro condition was already built into base rates and the financial impact of the event was not great enough. *Id.* at 9.

We believe the Commission should continue to apply such a flexible approach in the future, recognizing that a materiality test may be warranted in some cases but not in all. A materiality test plainly has not been applied uniformly. To name just a few examples: Tax refunds have been passed through to customers through a deferral without any materiality test; intervenor funding has no materiality threshold; and PGE's IT deferrals provided customers with a $7.5 million credit for 2002 and $4.2 million for 2003 (and will refund $4.2 million every year thereafter until the next general rate case) without any materiality screen. Nor is a materiality test required by law. The deferral statute is silent and imposes no materiality requirement.

When might a materiality threshold be appropriate? The UM 1071 order appropriately identified the ratemaking treatment of a particular item as an important factor. In short, the Commission concluded that if the variance for which deferred accounting treatment is built into base rates and the utility is already being compensated for the variance, the deferral should not be granted. On the other hand, if the utility is not being compensated in base rates for the variance, then the Commission should grant the Application. Consideration of the ratemaking treatment of the increase or decrease in expense or revenue is therefore plainly relevant. If the variation is not reflected in rates, either by setting the particular cost or revenue or by setting the cost of equity, then there is no basis for applying a materiality threshold.

B. The Commission should reject a rigid stochastic test.

Other participants in this docket believe that the UM 1071 established a rigid and mechanical test. According to this approach, if the event that gives rise to the deferral is stochastic – meaning "one that can be predicted as part of the normal course of events, it is

quantifiable, and can be represented by a known statistical distribution" – then the financial impact must be substantial. *See, e.g.,* ICNU Opening Comments (October 11, 2004), at 5. If the event cannot be modeled statistically, then the event must have a material impact to warrant a deferral.

This inflexible approach is wrong for several reasons. First, it ignores the central point in the Commission's UM 1071 order, which was consideration of the ratemaking context. The fact that a cost item "is part of a normal courts of events, and can be represented by a known statistical distribution" alone is irrelevant. What the Commission decision in UM 1071 focused on was how the Commission set base rates and what level of variation the Commission built into base rates. The Commission's finding that a certain level of hydro variability was built into rates contributed to its decision that the 2003 variation did not warrant deferred accounting treatment.

Second, an inflexible approach leads to an unprincipled and ad-hoc deferral policy. Thus, proponents of the stochastic/materiality test say the test applies unless the deferred accounting order is "Commission-approved." This "Commission-approved" exception swallows the rule. It tells you absolutely nothing about when the materiality test applies because in every case the Commission must approve a deferred accounting application before it is effective. Thus, Staff and others claim that "events that are mandated, pursuant to Commission approval, or emerging from a rate case, or DSM costs, the PGA, and intervenor funding" are not subject to the stochastic/materiality test.[6] But the proponents of a rigid stochastic test have no explanation why this is so. Their position reduces to one in which a stochastic/materiality test applies unless

[6] As noted above, there are a number of other deferrals to which the Commission has not applied a materiality test. Staff Opening Comments (October 11, 2004), at 3.

they or the Commission determines it does not. This is not a Commission policy; it is the absence of one.

A more principled approach is to simply acknowledge that deferred accounting applications should be considered based on the particular circumstances that give rise to the application. No single materiality test can be applied. The Commission considers the purpose of the deferred accounting request, its prior ratemaking treatment, and in some cases the financial impact on the utility. The Commission may consider whether or not base rates already incorporate and compensate the utility for absorbing a certain degree of variation. This approach is true to the Commission's deferred accounting practice, allows the Commission the flexibility to use deferred accounting when it offers an appropriate ratemaking tool, and does not unnecessarily restrict the Commission's discretion in addressing the extraordinary events that often give rise to deferred accounting application.

Issue 2: For what types of deferrals should the Commission apply the concept of a normal risk range? How should it determine the size of the range?

See the above discussion regarding the applicability of materiality or normal risk range requirement.

Issue 3: Should deferrals be limited to the costs associated with the cost-causing factors identified in the original application for deferred accounting?

Yes, but the Commission rules requiring the applicant to describe the reason for the deferral, how the deferral mechanism operates, and the revenue or expense item for which deferred accounting is sought satisfy this requirement. OAR 860-027-0300(3)(a)-(d). Parties are entitled to notice of the basis for the application so that they can conduct discovery and prepare their case. The existing Commission rules require information that provides sufficient notice. On the other hand, the Commission has not in the past, and should not in the future, use these

rules to disallow deferred items based upon technicalities or overly restrictive interpretations of these requirements.

In our experience, for non-power cost items, it is often easy to limit the deferred amount to the direct costs or revenue changes associated with the reason for the deferral. For example, the deferrals for utility tax reductions (Ballot Measure 5), Y2K costs, and SB 1149 costs simply track the item that is the reason for the deferral.

However, separating out the cause of the deferred amount is not always easy. For power cost deferrals, identifying the cause of the cost change is difficult because the costs are so entwined. The event causing the deferral will influence other costs and actions as well. For example, drought conditions in the Northwest will lead to restricted hydro output from plants on the Mid-Columbia. PGE will need to replace this lost generation, either with purchased power, increased thermal or hydro generation, or some combination, and will attempt to do so in the most cost-efficient manner. Power prices, demand, and other events will cause PGE to act differently than if the only event was lost hydro generation. Determining which power purchase contracts replaced the lost hydro generation is very difficult and speculative.

Indeed, the Commission has adopted broad deferral mechanisms in the past to avoid these administrative complexities and to permit customers to benefit if there are other related cost savings:

> We recommend a definition of Trojan outage costs that would be broader than that contained in PGE's schedule 100 filing. After review of the filing, we have concluded that the cost estimation method in PGE's filing would be unduly complex to audit and administer by requiring a daily or even hourly identification of replacement power supplies related solely to the Trojan outage. Attachment A reflects a broader definition but also, admittedly, would reflect other variables that could affect power costs as they might differ from those in [the preceding general rate case] UE 79 (for example, hydroelectric conditions, weather, other plant

> operations, etc.). Certain of these variables could be considered generally random and work in either direction to affect power costs. Because other power costs are within the control of PGE, Staff has proposed an incentive feature (90 percent of outage cost recovery) to encourage cost minimization by the company. We have assessed the tradeoffs of each approach to defining power costs and prefer the broader power cost definition.

UM 445, Order No. 91-1781, Appendix A Staff Report at 6. We point this out not as a suggestion that a broad deferral mechanism is appropriate in all cases. Rather, it shows that the Commission should determine the particular deferral mechanism on a case-by-case basis, not as a general Commission policy.

Issue 4: What interest rate should be applied to a deferral balance?

The utility's current authorized cost of capital should be the interest rate used on a deferred balance. This has been the Commission's policy for at least 30 years, and there is no reason to change it.

Others in this docket may argue that the risk of recovery for a deferred account is lower than for other utility investments and that therefore the applicable interest rate should be based on Treasury rates or other "risk free" indexes. *See* Staff's Opening Comments (October 11, 2004), at 4. PGE disagrees on several bases. First, this is a theory without a foundation. There is no evidence in this docket or elsewhere regarding the relative risk of recovery of deferred accounts and how it compares with the risk of other utility investments. Second, the risk of recovery is irrelevant to determining the appropriate interest rate. Utilities must fund, and pay financing costs or attract capital to fund, deferred accounts. Utilities fund deferred accounts just like any other capital investments to which the Commission applies the utility's weighted cost of capital in the ratemaking process. Utilities should be able to recover its cost of funding deferred

accounts (which is the same as its cost of funding other utility investments), no matter what the risk of recovery is. Anything less imposes a loss on the utility for funding a deferred account.

Some may propose in this docket using the utility's short-term financing rate as the appropriate interest rate for deferred accounts. We disagree with this proposal. Utilities do not identify specific types of financial sources with particular financial needs. Rather, the utility's financial sources are collectively treated as a general source of funds, whose weighted average cost is used to determine its authorized cost of capital.

Short-term financing is used for day-to-day activities that are not marked by the delayed recovery that defines deferred accounts. Short-term financing is currently part of a utility's retail rates only through AFUDC and Working Cash. AFUDC includes short-term debt costs in its calculation and is applied to certain capital jobs in progress. Working cash is the day-to-day cash required by the utility to meet its short-term cash flow needs, such as payroll, bill collection, vendor payments, etc.

Deferred balances, however, are not day-to-day items in which the outlay and repayment are close in time. Because PGE updates rates once a year, on January 1, deferred changes in costs and revenues will not have their balance fully amortized until the end of the following year, at the absolute earliest. This delay is extended for deferrals whose 12-month duration does not coincide with a calendar year. For example, costs that are deferred in July of one year may not be completed until June of the following year and amortization will not be completed until the end of the calendar year after that (i.e., two and one-half years after the cost is incurred). Moreover, some deferred balances are amortized over more than one year (e.g., Y2K, DSM program costs, SB 1149 costs, PCAs, and transition costs for the sale of Pelton-Round Butte) or are not subject to amortization in a year or less (e.g., transition costs for the sale of Pelton-Round

Butte). Consequently, the arbitrary application of a short-term interest rate to deferrals is inappropriate.

Issue 5: What should be the filing requirements and process for deferred accounting investigations?

The current Commission rules should be improved by incorporating specific time frames for Commission action on deferred accounting application. In addition, the Commission rules should be amended to address the timing for hearing requests given that the deferral statute now requires a hearing if a party requests one. ORS 757.259(2). Questions have arisen in recent dockets regarding the process by which the Commission resolves disputed issues of fact when a hearing is not requested or held. UM 1071, Order No. 04-357. Finally, we understand that Staff and intervenors would like an opportunity to request more information regarding the reason for the deferral, the deferral mechanism, or the estimated amount of the deferral.

To address these issues, we propose the following provisions for incorporation into the deferred accounting rule (OAR 860-27-0300):

- Comments on a deferred accounting application should be filed within 20 days of the filing of the application.
- Prehearing conference should be held within 30 days of the filing of the application.
- In comments filed concerning the application, but in no event later than the prehearing conference, the parties should indicate whether a hearing will be necessary and whether they believe more information is needed regarding the item to be deferred, the mechanism for the deferral, or the estimated amount of the deferral.

- In response to a party's request, the applicant may supplement the application within a reasonable period of time after the prehearing conference. Supplements in response to such a request relate back to the date of the application for timing purposes.
- If the applicant supplements the application, parties may request a hearing within 15 days of the supplemental filing.
- For deferral applications in which no hearing is requested within the deadlines listed above, all factual claims in the application and any supplement are deemed true for the purpose of considering whether the deferral application should be approved.
- The Commission should issue a final order approving or denying a deferral accounting application within (i) 180 days of the later of the original filing date or the filing date of any supplements to the application if a hearing is required or (ii) within 90 days of the later of the original filing date or the filing date of any supplements to the application if no hearing is required.

Issue 6: What are the alternatives to deferred accounting for recovery of excess utility costs or revenues between rate cases?

See discussion above in Section II.C of these Opening Comments.

Issue 7: Do the Commission's deferred accounting practices and procedures ensure symmetrical treatment of deferrals for excess utility costs and deferrals for excess utility revenues?

The Commission's deferred accounting practices should ensure symmetrical treatment for both balances that reflect lower costs of service and those that reflect higher costs of service. This is particularly important when the Commission approves deferrals in a rate case to resolve

items that are difficult to forecast. The temptation may be to terminate such deferrals after a few years if they result in charges to customers while retaining deferrals that result in customer refunds. The Commission should not adopt or follow such a one-sided approach. If it decides to continue the recent practice of approving rate case settlement deferrals, the Commission should administer these deferrals in an equitable and even-handed manner.

An even-handed approach is also essential to determining the circumstances in which the Commission may consider the materiality of a deferred cost or revenue item. Some may propose a rigid and stringent materiality test for utility-proposed deferrals while seeking to waive a materiality requirement for "Commission-approved" deferrals. *See* CUB Opening Comments (October 11, 2004), at 3. The Commission should reject such a discriminatory approach.

Issue 8: Should there be an overall cap on the amount of costs that a utility can defer in one year?

The Commission should decline to adopt a cap on costs that a utility can defer in one year. It makes no sense to place caps on deferrals that foster important Commission policy goals, implement Commission approved tariffs, and protect the financial stability and health of the utility from extraordinary and unanticipated events.

Moreover, there is no statutory basis for imposing a cap on the amount deferred. The Legislature has imposed a cap on the amortization of deferred amounts but no cap for the amount deferred (ORS 757.259(6), (7), (8)). Finally, there is no basis for applying the limitation in a discriminatory fashion. The proposal would do so by placing a cap on deferring costs but not on deferring revenues or cost savings.

Issue 9: What must the applicant show to demonstrate that a deferral under ORS 757.259(2)(e) will either (a) minimize the frequency of rate changes or fluctuation of rate levels or (b) match ratepayer benefits and costs?

Two procedural points regarding ORS 757.259(2)(e) should be noted. First, subsection 2(e) of the deferred accounting statute is stated in the alternative. To qualify for deferred accounting treatment, an applicant need only show that the deferral will *either* (a) minimize the frequency of rate changes or fluctuations of rate levels or (b) match ratepayer benefits and costs. *In Re PacifiCorp*, UM 995, Order No. 01-085 at 11. Second, subsection 2(e) determines what is an *eligible* item for deferral. It is not the end of the Commission's review. If a change in revenue or cost satisfies subsection 2(e), the Commission proceeds to the second step in its analysis to determine whether it should exercise its discretion to approve deferred accounting treatment. *See* UM 1071, Order No. 04-108 at 8.

With respect to whether an item is eligible for deferred accounting treatment, the Commission has been consistent in interpreting this two-prong alternative test set out in subsection 2(e).

- A deferred accounting application minimizes the frequency of rate changes or fluctuations of rate levels if it causes the applicant not to file for an interim rate increase. UM 995, Order No. 01-085 at 11.
- A deferred accounting application matches ratepayer benefits and costs if it seeks to defer cost incurred for the benefit of customers. For example, the Commission permitted Idaho Power to defer excess power costs due to poor hydro conditions because "customers are enjoying the benefits of extraordinary purchases and other actions by Idaho Power which assure continued service." UM 480, Order No. 92-1130 at 2.

The Commission should continue to apply these tests to applications under subsection 2(e).

The other question here is what standard of proof should the Commission apply. If the applicant represents that deferred accounting will either minimize the frequency of rate changes or match ratepayer benefits and costs, and no other parties challenge that claim, the Commission should accept that representation unless it cannot reasonably rely upon the representation based on the entire record. If a party challenges the applicant's claim, then the Commission must make a factual determination based on the available evidence whether or not the applicant has established either of the two possible alternatives under ORS 757.259(2)(e).

Issue 10: What types of costs are eligible for deferred accounting – e.g., do the costs have to be extraordinary, unanticipated, nonrecurring, and/or discrete?

Deferred accounting is a ratemaking tool available to the Commission. The Commission should use it whenever it offers an appropriate ratemaking alternative. It should not adopt artificial definitions that are not required by statute and which may prevent it from using deferred accounting in appropriate circumstances in the future.

The deferred accounting statute does not impose any of the limitations identified in this issue. In fact, the Commission and Legislature have rejected these very same limitations in the past. At a legislative hearing in 1987, Commissioner Davis and staff emphasized on a number of occasions that deferrals encompass both anticipated and unanticipated expenses. *See* attached Legislative History, Exhibit 1 at 6-7. Moreover, the Commission expressly refused to limit deferrals to "discrete" items, concluding that it "does not impose an absolute requirement of discrete costs in a deferred accounting application." *In Re PacifiCorp*, UM 995, Order No. 01-420 at 27-28.

Because of the variety of circumstances in which deferred accounting has been approved, it is not possible or advisable to adopt a single definition for eligible cost or revenue changes. In any event, eligible changes cannot be defined as "extraordinary, unanticipated, non-recurring

and/or discrete." The proposed definition fails to fit many, if not most, of the Commission-approved deferrals. To take just one example, the Commission's DSM deferrals involved costs that were anticipated, ordinary, and recurring. Many of the deferrals that implement tariffs similarly involve anticipated, ordinary and recurring expenses.

DATED this 18th day of January, 2005.

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Legislative History of SB 2145 Enacting the Deferral Statute (ORS 757.259)

The Commission's deferred accounting *practice* dates back to the 1970s, if not earlier. The origin of the *deferral statute* was a request in 1987 from Commissioner Davis to the Oregon Attorney General's Office for a legal opinion concerning whether the Commission had the legal authority to issue deferred accounting orders. Commissioner Davis asked the Attorney General's office to review four specific deferred accounts: (1) deferred costs relating to a new electric generating plant – similar to deferred accounts approved in Order No. 86-1078 for Jim Bridger Unit 2 and Order No. 86-605 for Colstrip Unit 4; (2) deferrals to account for power costs in a balancing account – similar to the deferred account approved in Order No. 79-830; (3) deferrals to account for power costs incurred as a result of a series of cogeneration contracts; and (4) a deferred account that would capture shortfalls or surpluses in revenues and later surcharge or refund customers based on the difference. The Attorney General's opinion concluded that the deferred accounting orders implicated the rule against retroactive ratemaking and were "absolutely impermissible unless they are expressly authorized by the legislature and do not violate the Oregon and United States Constitution." Office of Oregon Attorney General OP-6076, March 18, 1987, 1987 WL 278316 at 1 (the "AG's Opinion").[1]

The basis of the AG's Opinion was the rule against retroactive ratemaking. Although the rule is often stated as a prohibition against using past *profit or losses* to set future rates, the AG's Opinion recognized that the rule is implicated whenever *previously incurred expenses* or *previously collected revenues* are used to set future rates: "The rule is implicated when the

[1] Page references to the AG's Opinion refer to the Westlaw version.

regulator, after determining expected costs and revenues, supplements that determination by employing past profits or losses in setting the future return for the utility." *Id.*

The rule has both a legislative and constitutional dimension, according to the AG's Opinion. Ratemaking is a legislative function that is prospective by its very nature unless "specifically authorized by the legislature." *Id.* at 7. Thus, the Commission's general powers (ORS 756.040) do not give the Commission authority to engage in retroactive ratemaking because the legislature did not explicitly authorize retroactive power. *Id.*

The rule also has a constitutional foundation. Certain forms of retroactive ratemaking, even if the legislature were to grant the authority explicitly, would not pass constitutional muster. For example, "a legislature could not authorize a regulator to use past profits on setting future rates." *Id.* at 5. The AG's Opinion concluded that there was little or no doubt that Oregon courts would "follow the unanimous and well-reasoned authorities in other jurisdictions that have held that retroactive ratemaking is invalid." *Id.* at 6.

The Attorney General's opinion then turned to the specific questions the Commissioner posed. It considered a possible deferred account for the cost of a new generation facility. *Id.* at 6. The AG's Opinion concluded that the Legislature had not granted the Commission with the authority to approve deferred accounts. The ratemaking authority conferred on the Commission through ORS 757.210 is prospective only, and the general powers of the Commission do not confer retroactive authority. *Id.* at 7. The AG's Opinion similarly concluded that the Commission lacked statutory authority to issue the other three proposed deferred accounting orders. *See id.* at 11-15.

The AG's Opinion pointed to a legislative solution. Deferred accounts would be permissible, assuming they were not the variety prohibited by the constitution, if (1) the

Commission were authorized to establish a balancing account and (2) the deferred account applies to rates in effect after the account has been established. *Id.* at 10. Without Legislative authorization, the Commission lacked the power to authorize deferred accounts.

Action to fill the legislative void was immediate. In fact, legislative hearings on an early version of the deferred accounting statute began on March 11, 1987, seven days before the Attorney General's office finalized its opinion on March 18, 1987.

The Legislature heard testimony concerning the Commission's deferred accounting practice, including various objections. Some complained that the practice favored utilities and generally reflected increased utility costs. Others complained that the Commission's deferral practice did not afford meaningful opportunity for public comment and participation. The proposed legislation addressed these complaints and other issues as follows: (1) the Commission or customers could apply for deferrals; (2) public notice would be provided, except where a government body imposes a cost retroactively; (3) the legislation went both ways enabling the Commission to defer either expenses or revenues; (4) the protections of a rate case filing under ORS 757.210 would be afforded before recovery of any deferred amount; (5) an earnings test applied at the amortization phase; and (6) caps were placed on the amount amortized in any given year. *See* HB 2145 Senate Committee on Business, Housing & Finance, Remarks of Rep. Ron Eachus (May 21, 1987). As Representative Eachus said:

> We've established the process that is balanced and allows either the utility, the Commission or the ratepayers to initiate a deferral. And it is not only costs to a utility but also for benefits to the ratepayers.

Id.

In testimony supporting the legislation, Commissioner Davis underscored the discretion afforded the Commission by the deferral statute: "The bill specifies the circumstances under

which deferred expense items may be allowed. The provisions of the bill are permissive, not mandatory. The PUC may authorize deferrals, but is not required to. Public notice is required. The Commission will assess the reasonableness of deferral by requesting public comment before the deferral is allowed." HB 2145, Senate Committee on Business, Housing & Finance, Commissioner Davis Testimony (May 21, 1987) at 5.

Like the current statute, the original statute enacted in 1987 stated that the Commission "*may*" authorize deferred accounting orders if the deferral fits within one or more of the listed categories eligible for deferral treatment.[2] The eligible categories included some of the same categories in today's deferral statute: amounts incurred by a utility resulting from changes in the wholesale price of natural gas or electricity approved by FERC; balances from the BPA residential exchange program; and "utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers." HB 2145, Section 2(2)(c), ORS 757.259(2)(c), as enacted, now ORS 757.259(2)(e). The statute also grandfathered deferred accounts authorized by the Commission before the effective date of the deferral statute. HB 2145, Section 2(5).

The deferral statute says the Commission *may* grant deferrals that fall within the listed categories. As Commissioner Davis testified, the Commission has discretion so long as the deferral application fits within one of the categories. What is often debated is whether the 1987

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[2] The statute also provides for automatic deferred accounting treatment if other government agencies order retroactive relief. *See* ORS 757.259(1). This provision of the deferred accounting statute is generally less controversial than section 2 of the statute which deals with discretionary deferred accounting applications. This overview of the legislative history concerns ORS 757.259(2) and not the automatic deferral provision, ORS 757.259(1).

Legislature intended to impose any further restrictions or provide guidance as to how the Commission should exercise that discretion.

Parties in deferral dockets most often address whether deferrals must reflect "unanticipated," extraordinary, or relatively small items. Parties that favor a narrow application of deferred accounts rely on statements such as that made by representative Ron Eachus, who commented that "the goals were to limit it and make sure it was applied in out-of-the-ordinary circumstances, applied on a temporary basis, and applied where generally small amounts are in effect." HB 2145, Committee Minutes, (May 21, 1987); *see also* HB 2145, Senate Business, Housing & Finance Committee, Commissioner Davis Testimony (May 21, 1987) at 1 ("There are a few circumstances in which expenses unanticipated at the time rates were approved by the Commission would have been included in rates had the Commission known of them. . . . In part, that's what HB 2145 seeks to address."). In addition, these parties cite legislative statements made during the 1989 session that deferrals should be limited to "costs that are beyond [the utilities'] control and not anticipated in the last rate case." SB 72, Committee Minutes, Senate Committee on Business, Housing and Finance at 2, Testimony of Mike Kane, Assistant Commissioner, Utility Program, Public Utility Commission of Oregon (Jan. 1, 1989).

Other parties, who favor a broader approach to the deferral statute and the Commission discretion granted therein, point to other parts of the legislative history to bolster the argument that there was no legislative intent to limit deferrals to "out-of-the-ordinary" and small items. At the initial hearing on the deferral statute, Commissioner Davis and his staff emphasized on a number of occasions that deferrals encompass both anticipated and unanticipated expenses. When asked whether the Commission deferrals granted for the new investment in Colstrip 3 and Colstrip 4 were "unanticipated", the answer was "no." Colstrip 3 had been considered in a

general rate case and "Colstrip 4 was anticipated." HB 2145, House Environment and Energy Committee Minutes, Remarks of Bill Warren (Asst. Commissioner, Utility Program), March 11, 1987.

Following up on these questions, Representative Barilla asked what the definition of "unanticipated event" was and what role it "played in your bill"? Assistant Commissioner Bill Warren answered none:

> *I don't believe the word "unanticipated event" is used in the legislation. It's used here illustratively by the Commissioner in trying to show the committee just how this procedure might work.* Some examples of deferrals that we've authorized in the recent past, again: gas cost changes imposed by the Federal Energy Regulatory Commission; the tax act deferral for Pacific Power and Light that we currently have ongoing now as a result of an act of Congress; *Colstrip 4, we discussed that – that wasn't anticipated, though it's not an unanticipated event*; changes by the Bonneville Power Administration in the way they calculate what are known as exchange costs with the industrial electric utilities, the benefits that we receive through the Regional Power Act. *Basically, the items that we've been deferring are those that are either very large and discrete in nature or imposed by another governmental body or someone by the Bonneville Power Administration. But the word "unanticipated event" is not used in the legislation. I don't believe the word 'unanticipated event' is used in the legislation.*

Id. (emphasis added).

At the April 8, 1987, hearing before the Environment and Energy Committee, the same point was repeated:

> Barilla: Before we go on, Rep. Eachus, one of my concerns at the initial hearing on March 11 was, as I heard the explanation, was that this bill was for unanticipated events. Would you like to redefine or clarify that in terms of the bill?
>
> Socolofsky: I am John Socolofsky again from the Attorney General's office, and one of the counsels for the Public Utility Commissioner. Commissioner Davis can tap me on the shoulder if I make a mistake here, *but the unanticipated event that he had on*

> *the chart that he showed the committee was primarily for the purposes of illustrating how the mechanisms worked, how the deferrals accrued and what would take place under the bill. It was one type of thing that might be deferred. It wasn't necessarily meant to be the only way deferrals might accrue.*

HB 2145, House Environmental and Energy Committee Minutes, Remarks of Jack Socolofsky (April 8, 1987) (emphasis added).

Parties that argue for broad Commission discretion also rely on the Commission's deferral practice before 1987 and the fact that the 1987 Legislature included these Commission-approved deferrals in the initial legislation. In testimony before the Senate Business, Housing and Finance Committee, Commissioner Davis presented the list of previously authorized deferrals and explained how these deferrals fit within the then-proposed deferral statute. HB 2145, Senate Committee on Business, Housing and Finance, Testimony of Commissioner Davis, at 4-5.

Parties supporting broad Commission discretion argue that a review of these deferred accounts reveals that the purpose of the statute encompasses a wide range of deferrals. They include a $22,000 deferral for administrative costs of the weatherization program; $81,000 for the cost of a one-time "water heater wrap" program; $14 million for PGE's capital restructuring program; and a $3.6 million customer credit from the PGE PCA balance. *See* Attachment 2 to Commissioner Davis' testimony. Some of these deferrals – all of which were explicitly authorized by the statute – were quite small, some were quite large, some reflected one-time events, and others were ongoing deferrals. Parties arguing for broad Commission discretion claim that grandfathering these deferrals shows the breadth of the deferrals that satisfy the purpose and terms of the deferral statute.

Parties that support a narrower interpretation that includes "unanticipated," extraordinary, or relatively small items argue that the Commission's statements and deferral practice since 1987 reflect these requirements. For instance, in Order No. 01-988, the Commission stated:

> ORS 757.259 allows this Commission to authorize the deferral of certain expenses for later incorporation in rates. We have previously construed that statute narrowly, and limited its application to the recovery of discrete expenses that might affect a utility's earnings on a short-term basis. The statute cannot be used to authorize the deferral of general expenditures that a utility incurs in an ongoing and continuous manner.

Re PGE, OPUC Docket UE 115, Order No. 01-988 at 8 (Nov. 20, 2001). In Order No. 92-1128, the Commission stated that "[f]or the most part, deferrals under ORS 757.259 (2)(c) were to be of *discrete items* which might substantially affect a utility's earnings on a short term basis." *Re PacifiCorp, dba Pacific Power & Light Company*, Docket No. UE 76, Order No. 92-1128 at 8 (Aug. 4, 1992). Furthermore, the Commission pointed out that except in limited circumstances, "it was not contemplated that this procedure be a substitute for permanent increases in utility rates[,]" including interim rates, and "it was never contemplated that [the deferred accounting] statute would serve any function, once a rate proceeding was under way." *Id.* at 9.

Parties that argue for broad Commission discretion respond by noting that the Commission's practice has not been to limit deferrals to small and unexpected items. The Commission has approved deferrals for anticipated variations[3] and large items.[4] These parties also argue that the Commission explicitly ruled that its order in UE 76 "does not impose an

[3] *See, e.g.*, UM 1040, Order No. 02-088 (authorizing application to defer $1 million in expected advertising expenses)

[4] *See, e.g.*, UM 995, Order No. 01-420, and UM 1008/1009, Order No. 01-231, authorizing deferral of power costs for PacifiCorp and PGE.

absolute requirement of discrete costs in a deferred accounting application." UM 995, Order No. 01-420 at 27-28.

Finally, while the parties may disagree about what constitutes the best deferral policy or what the 1987 legislature actually intended, one thing is relatively clear: individual legislators could not agree amongst themselves on how deferred accounting should be applied. For example, in committee, Representative Barilla said he wanted the "relief under this bill [to] be very narrowly construed." SB 2145, House Environmental & Energy Committee (April 8, 1987). Representative Johnson immediately disagreed: "I'd go the opposite way. The people providing the power have to get paid for producing it or some other product." *Id.* While the legislators disagreed, they made no changes in the statute to resolve these opposing views. The deferral statute was then passed and signed into law.

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Portland General Electric - Deferred Accounting 1990-2004

Description	Docket No.	Deferral Period
Category A Advertising Costs	UM 1040	Ongoing until next General Rate Case (customer charge)
IT Capital Structure	UM 1131	Ongoing until next General Rate Case (customer refund)
Deferral of Boardman Rail Transportation Costs	UM 1126	2002-'03 (customer refund)
Conservation Programs	UM 784	Ongoing from 1995 to 2002 (customer charge)
DSM / EE	UM 730, UM 732, UM 538	Ongoing from 1993-1994 (customer charge)
Public Purpose Fund	UM 970	2001 (customer charge)
SB 1149 (non 757-259)	UM 954	1999-2007 (customer charge)
Intervenor Funding	UM 1103	2003-2004 (customer charge)
Y2K (non 757-259)	UM 919	1998-2000 (customer charge)
Property Sales	UP 165 /170, UP 173, UP176	n.a. (customer refund)
AMAX coal, UE-88/Trojan related	UM 304, UM 519, UM 692	1991-'95 (customer charge)
Measure 5 / Tax Savings	UM 374, UM 815, UM 878	1990s (customer refund)
Trojan Replacement Power Cost	UM 594, UM 445, UE 85	1992-'95 (customer charge)
Power Cost Adjustment	UM 1039, UM 1009/1008	2001-'02 (customer charge)

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PafiCorp Deferred Accounting

Description	Total Deferred ($ million)	Docket No.	Deferral Period	Amortization Period	
Ballot Measure 5	($21.2)	UM 374	July 91 - July 96	April 94 - February 98	Initiated by The Company
Vegetation Management	($11.6)	UM 349	Oct 90 - July 96	July 96 - February 98	Initiated by The Company
Late Payment Charge	($1.5)	UE 76	Aug 92 - July 96	July 96 - February 98	Initiated by The Company
FAS 106	$7.1		Jan 93 - July 96	July 96 - February 98	Initiated by The Company
DSM/SBC (*)	$109.3	UM 564	July 93 - Feb 2002	Nov 96 - May 2004	Deferred under independent statutory authority
SB 1149 Implementation (**)	$23.2	UE 116	Ongoing	Mar 2002 - ongoing	Deferred under independent statutory authority
Excess Power Costs	$131.0	UE 116	Nov 2000 - Sep 2001	Feb 2001 - ongoing	Initiated by The Company
Bridge Power Costs	$0.3	UM 995/UE 121	Sep 2001 - May 2002		Arose from Rate Case
Y2K	$1.3	UE 120	1998 - 1999	Jan 2000 - ongoing	Initiated by The Company

(*) Because of the length of time this account has run and changes in the Accounting System, this amount is an estimate and may include some carrying charges.
(**) Amount approved through December 2002

Date: February 6, 2004

Re: IPCO History and Comments on
Oregon Deferral Processes

To: Judy Johnson

Idaho Power Company has initiated seven deferral applications in Oregon since 1990 as follows:

UM 480	1992	Deferral of drought related power supply expenses
UM 595	1993	Deferral of DSM expenses
UM 673	1994	Deferral of drought related power supply expenses
UM 756	1996	Deferral of specific DSM program expenses (SEEP)
UM 769	1995	Deferral of Corporate Reorganization expenses
UM 811	1996	Deferral of Expenses Incurred to Cancel Coal Deliveries
UM 1007	2000	Deferral of Excess Power Supply Expenses

Idaho Power Company has the following concerns about current deferral methodologies.

1. The current amortization cap is a problem for Idaho Power. Because of the cap, amortization of power supply expenses incurred during the extraordinary events of 2001 will continue for many years to come. Any additional deferrals granted by the Commission will not be recoverable until currently deferred amounts are fully recovered.

2. When utilities have a general revenue requirement case, deferral accounts should be reviewed in the full revenue requirement context and recovery allowed based upon that review. Only new deferrals after a general revenue requirement proceeding should be subject to capped recovery.

GWS:ma
c: Ric Gale

NW Natural
Deferred Accounting Issues

Issue	Description	Refund or Collection	Status or Dates Effective
ISA/BITS/FCTS	Recovered amounts related to industrial customer migration	Both	Early 90's
Measure 5 Savings	Refund of amounts to ratepayers due to lower property taxes	Refund	mid 90's
Pipeline refunds	Refund of amounts to ratepayers due to pipeline rate case refunds	Refund	Periodic
WACOG	Deferral of 67% of difference of actual and estimated costs	Both	Ongoing
Demand	Deferral of difference of actual costs and actual recovery	Both	Ongoing
Oregon Tax Refund	Refund of Kicker amounts	Refund	Periodic
DSM - Program Costs	Collection of various DSM program costs (high efficiency furnaces, water heaters, showerheads)	Collection	Phasing Out
DSM - Lost Margin	Collection of lost margin related to volume effficiency from DSM programs	Collection	Phasing Out
Least Cost Planning	Collection of amount to fund special studies	Collection	mid 90's
WACOG and Demand Delay	Tracker to collect new levels of costs while review process continued	Collection	mid 90's
Y2K	Collection of amounts for computer software enhancements for Y2K problem	Collection	Phasing Out
Offset Gain - Replacement Parking	Accounting to apply replacement parking costs against gain on sale of lot to Port of Portland	Collection	Phasing Out
Mist Cost True-up	Collection of difference in cost of service due to actual versus estimated investment cost	Collection	Phasing Out
Margin Sharing - Storage Services	Refund of share of profits from storage optimization and interstate storage services	Refund	Ongoing
Operator Qualifications	Collection of costs to cover compliance with Office of Pipeline Safety requirements	Collection	Phasing Out
Excess Weatherization Audits	Collection of amounts related to request for audits following strong increase in WACOG	Collection	Phasing Out
Intervenor Funding	Collection of amount for funding parties to regulatory proceedings	Collection	Ongoing
Decoupling	Deferral of 90% of variance of weather normalized actuals to rate case consumptions	Both	Ongoing
Mist Pipeline	Collection of amount related to cost of service of pipeline placed in service in November 2003	Collection	Ongoing
Safety - Bare Steel and Geo-Hazard	Collection of amounts related to accelerated replacement program for Bare Steel and risk mitigation on geo-hazard sites	Collection	Ongoing
Vancouver Property Sale	Refund of Oregon portion of gain on Vancouver property sale	Refund	Phasing Out

CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **OPENING COMMENTS OF PORTLAND GENERAL ELECTRIC COMPANY** 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.

DATED: Jan. 18, 2005.

David F. White

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