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.	**PORTLAND GENERAL ELECTRIC COMPANY'S REPLY COMMENTS (PHASE II)**

Portland General Electric Company ("PGE") submits the following Reply Comments.

I. THE PROPOSAL IN THIS PHASE OF THE DOCKET RESTS ON A SERIES OF ERRONEOUS ASSUMPTIONS

The proposal that a different interest rate should apply to deferred accounts rests on a series of unfounded and false premises. First, it assumes that utilities have two sets of funds: dollars the utilities use to fund capital investments and the dollars they use for deferred accounts. The proponents of a change in Public Utility Commission of Oregon ("Commission") policy assume that equity and long-term debt finance capital investments and short-term debt funds deferred accounts.[1] This series of assumptions leads to the false conclusion that the "true" costs of funding deferred accounts is different from the cost of funding rate based investments.

There is no evidence to support these assumptions. In fact, they are false. Each utility in this docket has represented that it has a single, undifferentiated source of funding, which consists of equity, long-term and short-term debt. The utilities fund capital investments and deferred accounts from this single source of funds. Commission Staff's ("Staff") proposal in this docket is without precedent and unworkable. The Commission has never attempted to "color-code" dollars to identify their particular source and apply a specific interest rate to each. The

[1] Although it is not defined in the parties' comments, we assume "incremental cost of debt" means short-term debt. *See* Staff Comments at 2-3.

Commission has never tried this because the utilities have never operated in this manner.

Second, there is no evidence that utilities use short-term debt to finance deferred accounts. The closest proof offered is the following:

> The AROR is applied to rate base, which Staff assumes the utilities fund with long-term debt, preferred stock and equity. It is appropriate to match the utilities' long-term assets (ratebase) with long-term funding sources. Conversely, it is not necessarily appropriate to match the utilities' short-term assets or liabilities with the cost of its long-term funding source. Although amortization periods for deferred accounts vary, it is common for the Commission to authorize recovery or refund over 12 months.

Staff Opening Comments at 3.

This reasoning is fallacious. Just because Staff assumes equity and long-term debt fund rate-base items, Staff offers no reason to conclude that utilities fund deferred accounts from a different source.

The fact that the Commission may authorize recovery over a 12-month period is beside the point. As discussed above, the funding source for deferred accounts is no different from any other investment or expenditure. Moreover, the utility almost never recovers its expenditures for deferred accounts within one year. Even when the Commission orders recovery over a single year, the utility will not recover its entire investment until at least two years from the time it expended funds. In the typical situation, the utility will file a deferred accounting application that covers expenditures over the following 12 months. After the 12-month period has elapsed, the utility may then seek to amortize the deferred amounts, usually to be effective beginning January 1 of the following year. Recovery will not even begin until the beginning of the year following the initial expenditure of funds.

But even this exaggerates the speed with which utilities recover their expenditures for deferred accounts. The largest dollar deferred accounts have been for power costs. The recovery of these expenditures has almost always spread over three to five years to mitigate the rate impact. Consider the California power crisis in 2000-2001. PGE began incurring excess power costs in 2001. PGE did not recover all these properly deferred costs until 2005. In other words, it took over four years to recover PGE's expenditures for this deferred account. The same is no doubt true for other large power cost deferrals.[2] There is nothing "short term" about the utilities' recovery of their expenditures for deferred accounts.

The proposed change in Commission policy is unsound for another reason. This is a policy docket in which the Commission is being asked to change a long-standing policy. At an earlier stage in this proceeding, the Administrative Law Judge asked that parties limit their comments to matters of policy. Nevertheless, the basis offered to change the Commission policy is not a policy statement. Instead, the basis for the change is a factual claim that is in dispute. Proponents of a change allege that utilities fund deferred accounts differently than other expenses and that utilities use short-term debt to finance deferred accounts. PGE and the other utilities disagree with both claims. To the extent the Commission intends to change its policy, we believe a factual record in a contested case proceeding is needed to resolve such questions. Such a contested case proceeding could be scheduled as part of this docket, or the Commission could consider this question on a case-by-case basis for each deferred account. At a minimum, the Commission should not reach a blanket conclusion in this docket regarding how utilities fund deferred accounts without some opportunity for the utilities to present evidence on the record regarding this question, and to provide specific information regarding the funding of any particular deferred account.

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2 Commission Staff also argue that the application of a different rate of interest to customer deposits supports its position. Staff Comments at 3. This is untrue. Utilities do not use customer deposits as a source of funding. Moreover, no one has ever suggested that the rate of interest applicable to customer deposits reflects the utilities' funding costs, which is the issue in this docket.

II. INVESTMENTS OR EXPENDITURES IN DEFERRED ACCOUNTS ARE NO LESS RISKY THAN OTHER INVESTMENTS

The other basis offered for a different interest rate is the alleged reduction in risk after entry of an amortization order. Staff Comments at 1. As we mentioned in our Opening Comments, this position ignores the unique risks that utilities face when funding deferred accounts, both before and after the amortization order. PGE Opening Comments (Phase II) at 2-4. These include many risks that do not apply to traditional ratebase items. The utilities may not recover their expenditures in deferred accounts based on: (a) earnings tests, (b) sharing and deadbands in the deferral mechanism, and (c) the incursion of expenses before the filing of the deferred accounting applications. These risks are on top of the regulatory risk of a prudence review. Because of these additional risks, utilities frequently recover substantially less than their entire expenditures for deferred power costs.

We do not support a change in the Commission's policy. Nevertheless, if deferred accounts are to be treated differently, then there must be some recognition of the risks that apply to the funding of deferred accounts. The current proposal is unbalanced. It treats deferred accounts differently from ratebase items without any recognition of the unique risk that apply to deferred accounts from the time of funding through to collection.[3]

III. THE PROPOSED CHANGE IN COMMISSION POLICY IS UNDULY COMPLEX AND UNWORKABLE

Finally, the proposal offered is overly complex and the potential benefits are not worth the burdens that such a policy will impose. The crux of the proposal is to match the interest rate that applies to deferred accounts with the "true cost" of funding these accounts. We do not

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[3] Staff suggests that deferred items are never included in ratebase. Staff Opening Comments at 2. This is incorrect. The following deferred accounts are/were included in PGE's rate base: Coyote Major Maintenance Accrual, BPA – Two-Cities Wheeling Costs, and the Boardman Gain.

disagree with the goal of such an approach. Nevertheless, the existing Commission policy of applying the utilities' weighted cost of capital to deferred accounts is a reasonable and balanced approach. It reflects the economic reality that utilities fund deferred accounts just as they do any other investment or expenditure dedicated to public service. The appropriate cost of such expenditures is the utilities' weighted cost of capital. It also reflects the fact that utilities face additional risk with respect to deferred expenditures, while also acknowledging that certain deferred accounts (such as intervenor funding) may not face the same level of risk as others.

The proposal offered in this docket would be extremely complex. It would require the Commission to determine the ultimate source of funding for each particular deferred account. This will not be an easy process. Utilities do not "color–code" their funding for either ratebase items or deferred accounts. It is likely that the Commission will have to resolve conflicting testimony on this point from the utility, intervenors and Staff. Once the source of funding has been determined, the Commission will then need to conduct a mini-rate case to determine the appropriate rate of return for the utilities' investment. Many deferred accounts face risks that ratebase items do not. Accordingly, the Commission will need to determine in each case the appropriate cost of funding or rate of return.

The administrative burden of such a complicated proceeding has not been justified. No party in this docket has estimated the benefit of a policy change. Nor is there any reason to think the benefits would be substantial. Once the appropriate risks applicable to deferred accounts are included, it is unclear whether the ultimate outcome will reflect a rate reduction for customers. Finally, no one has shown that the current system is broken and needs fixing.

IV. CONCLUSION

The Commission should retain its long-standing policy of applying the utilities' weighted cost of capital to deferred accounts and should reject the proposed changes.

DATED this 21st day of April, 2006.

Respectfully submitted,

/s/ DOUGLAS C. TINGEY

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CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing REPLY COMMENTS (PHASE II) OF PORTLAND GENERAL ELECTRIC COMPANY to be served by electronic mail, and for the parties who have not waived paper service, by First Class US Mail, postage prepaid and properly addressed, upon each party on the attached service list, pursuant to Oregon Administrative Rule 860-013-0070.

Dated at Portland, Oregon, this 21st day of April, 2006.

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April 21, 2006

Via Electronic Filing and U.S. Mail

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

Attention Filing Center:

Enclosed for filing in the above-captioned docket is Portland General Electric's Phase II Reply Comments. This document is being filed by electronic mail with the Filing Center.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,

/s/ DOUGLAS C. TINGEY

DCT:am

cc: UM 1147 Service List

Enclosure