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April 21, 2006

Via U.S. and Electronic Mail

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

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

Dear Filing Center:

Enclosed please find an original and two (2) copies of the Reply Comments of the Industrial Customers of Northwest Utilities Regarding Interest Rates in the above-captioned Docket.

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

Sincerely yours,

/s/ Ruth A. Miller
Ruth A. Miller

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

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

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

/s/ Ruth A. Miller

Ruth A. Miller

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1147

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

The Industrial Customers of Northwest Utilities (“ICNU”) urges the Public Utility Commission of Oregon (“OPUC” or the “Commission”) to adopt a policy of applying an interest rate to deferred accounts that reflects the cost of debt for the amortization period. The comments submitted by Portland General Electric Company (“PGE”), PacifiCorp, and Idaho Power generally assert two reasons why the Commission should not treat the interest rate applied to deferred accounts differently than that for other utility investments: 1) the Commission has not traditionally considered the risk of recovery of particular investments in determining the appropriate interest rate to apply; and 2) funding of investments relies on an overall mix of debt and equity.

These arguments fail to acknowledge that deferred expenses are not typical utility expenses that the Commission authorizes recovery of in a general rate case. Deferred accounting is an exception to general ratemaking principles that prohibit including in rates changes in costs or revenues that occur between rate cases. As such, establishing an exception to the Commission’s standard policy of applying an interest rate equal to the utility’s cost of capital is appropriate.

A. The Commission Requested Comments on the Distinction Between the Risk of Non-Recovery Before and After Amortization is Authorized

The utilities do not directly address the issue that the Commission asked the parties to comment on, which is the distinction “between the risks of recovery before and after amortization of a deferred account is authorized.” Order No. 05-1070 at 14. This distinction centers on the two stages for any deferred accounting request: 1) authorizing deferral of the costs at issue; and 2) authorizing amortization of the deferred costs. The difference in the risk of recovery before and after authorizing amortization is minor and provides no basis to justify a different interest rate.

1. The Utility Bears No Risk of Non-Recovery After the Commission Authorizes Amortization

The Commission correctly pointed out in Order No. 05-1070 that the utility bears little risk of non-recovery once the Commission authorizes amortization, because the utility recovers deferred costs dollar for dollar. Id. As such, there is no basis to apply an interest rate that contemplates much riskier investments recovered over longer time periods.

2. The Difference in the Risk of Non-Recovery Prior to the Commission Authorizing Amortization is Minor

The risk of non-recovery after the Commission authorizes deferral but prior to approving amortization differs little from the risk of non-recovery after amortization is authorized. The Commission stated in Order No. 05-1070 that “deferrals should be used sparingly” and the utility has the burden to justify deferral by demonstrating that the costs at issue relate to particular types of events and have a requisite financial impact on the utility. Id. at 3, 10. Satisfying this initial burden likely will be the primary hurdle to recovering deferred costs. Although the utility is subject to the risk of an imprudence disallowance once deferral is granted,

the possibility of an imprudence disallowance should be irrelevant to assessing risks of non-recovery, because imprudent costs are inappropriate for recovery under any circumstances. Thus, the interest applicable to such costs is irrelevant. Furthermore, an after-the-fact prudence review is a difficult and administratively burdensome task in which Staff and intervenors effectively bear the burden to demonstrate imprudence. Even if it were appropriate to consider the likelihood of an imprudence disallowance in determining the risk of non-recovery, these circumstances generally limit the risk of such a disallowance.

The Commission also pointed out that the utility is subject to an earnings test at the time of the application for amortization, but that test also presents little risk of non-recovery. Id. at 14. One of the factors that the Commission initially examines to determine whether to authorize deferral is the financial impact of the cost on the utility. If the cost does not have the requisite impact, the Commission denies the petition. It is unlikely under these circumstances that the Commission will approve a deferred account for a utility that is over-earning at the time that the Commission considers whether to authorize deferral.

PGE argues that PacifiCorp's alleged recovery of only 50% of the utility's excess power costs associated with the 2000-01 power crisis "confirms" the risk of the non-recovery. PGE Opening Comments at 3. PGE fails to point out, however, that PacifiCorp agreed by stipulation to a disallowance of approximately \$30 million to resolve the prudence phase of UM 995. Re PacifiCorp, OPUC Docket No. UM 995, Order No. 02-469 at 2, 4 (July 18, 2002). The other costs that PacifiCorp allegedly did not recover were related to a deadband and sharing mechanism that the Commission adopted to "protect ratepayers." Re PacifiCorp, OPUC Docket No. UM 995, Order No. 01-420 at 28 (May 11, 2001).

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PGE also does not mention its own power cost deferral associated with the power crisis, under which the utility was authorized to defer 100% of its excess power costs and agreed by stipulation to amortization according to a specific formula. Re PGE, OPUC Docket Nos. UM 1008/1009, Order No. 01-231 at 2, Appendix A (Mar. 14, 2001). Disallowances to which the utility agreed and mechanisms adopted to protect customers do not demonstrate risk of non-recovery.

B. Deferred Accounts Are Not Utility “Investments”

The argument that the utilities fund deferred accounts similar to any other investment also lacks merit because it fails to recognize that deferred accounts are different from utility capital investments. Staff correctly points out that deferred accounts are not utility investments; they are regulatory assets or liabilities created upon Commission authorization. Staff Opening Comments at 2.

PacifiCorp and PGE both argue that establishing a different policy regarding interest rates on deferred accounts would be discriminatory and asymmetric because the Commission does not authorize higher interest rates for higher risk investments. PacifiCorp Opening Comments at 3-4; PGE Opening Comments at 3. As Staff points out, to the extent that a utility makes a high risk capital investment, that increased risk is reflected in the utility’s authorized rate of return. Staff Opening Comments at 3-4.

In addition, the argument about asymmetry ignores that the utilities do not use deferred accounting in an evenhanded manner. Applications to defer decreases in utility costs are rare and minor in comparison to the increases in costs that utilities have sought to defer. In the power cost deferrals mentioned above, PGE and PacifiCorp deferred \$176 million and \$160

million, respectively. These amounts dwarf any costs savings that have been deferred for the benefit of customers. Furthermore, the utilities control the decision and timing with respect to applying for deferred accounting. Given that the utility controls virtually all aspects of filing for deferred accounts that are not required, applying an interest rate that better reflects the risk and time period for recovery is appropriate. Therefore, ICNU supports Staff's conclusion that it is "appropriate to apply an interest rate to deferred amounts that have been approved for amortization that reflects the risk, duration and true cost of funds needed to meet the obligations associated with deferred accounts." Staff Opening Comments at 4.

Dated this 21st day of April, 2006

Respectfully submitted,

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