



Portland General Electric Company
Legal Department
121 SW Salmon Street • Portland, Oregon 97204
(503) 464-8926 • facsimile (503) 464-2200

Douglas C. Tingey
Assistant General Counsel

February 10, 2006

Via Electronic and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
PO Box 2148
Salem OR 97308-2148

Re: In the Matter of PORTLAND GENERAL ELECTRIC
Application for a Hydro Generation Power Cost Adjustment Mechanism
OPUC Docket No. UE 165

Attention Filing Center:

Enclosed for filing in the above-captioned docket is Portland General Electric's Letter of Pamela Lesh. 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: UE 165 Parties

CERTIFICATE OF SERVICE

I certify that I have caused to be served the foregoing **Letter of Portland General Electric in Docket UE 165** by mailing a copy by First Class U.S. Mail, postage prepaid and properly addressed, and by electronic mail, to the following persons on the official UE 165 service list maintained by the Commission:

DAVID HATTON
DEPARTMENT OF JUSTICE
REGULATED UTILITY & BUSINESS
SECTION
1162 COURT ST. NE
SALEM OR 97301

JASON EISDORFER
CITIZENS' UTILITY BOARD OF
OREGON
610 SW BROADWAY STE 308
PORTLAND OR 97205

RANDALL J FALKENBERG
RFI CONSULTING INC
PMB 362
8351 ROSWELL RD
ATLANTA GA 30350

S BRADLEY VAN CLEVE
DAVISON VAN CLEVE PC
333 SW TAYLOR, STE 400
PORTLAND OR 97204

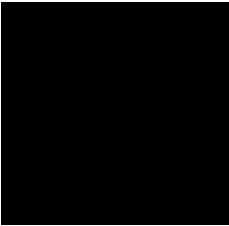
MAURY GALBRAITH
PUBLIC UTILITY COMMISSION
PO BOX 2148
SALEM, OR 97308-2148

ROBERT JENKS
CITIZENS' UTILITY BOARD OF
OREGON
610 SW BROADWAY SUITE 308
PORTLAND, OR 97205

Dated this 10th day of February, 2006.

/s/ DOUGLAS C. TINGEY

Douglas C. Tingey



Portland General Electric Company
121 SW Salmon Street | 1WTC1703 | Portland, Oregon 97204
office (503) 464-7353 | facsimile (503) 464-7050

Pamela Grace Lesh
Vice President
Regulatory Affairs & Strategic Planning

February 9, 2006

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol Street, N.E., Suite 215
Salem, OR 97301-2551

RE: UE 165

Dear Commissioners:

We would like to thank the Commission for its consideration of the temporary, hydro-related adjustment mechanism Portland General Electric Company ("PGE") proposed, though a settlement with OPUC Staff, in docket UE 165 (the "SD-PCAM"). We appreciate the Commission's efforts to provide guidance to the parties, and its offer to consider a revised hydro-related mechanism on an expedited basis. For the reasons set forth below and with the concurrence of the other parties in UE 165, we will withdraw the deferred accounting applications associated with the SD-PCAM and will not pursue at this time a hydro-related adjustment mechanism.

Over the last few months, PGE has been meeting with the parties in UE 165 to discuss not only the challenges of hydro-generation variability but, more generally, alternative frameworks for power cost recovery. We have reviewed and discussed how other states approach power cost recovery, the variability of power costs, power cost modeling issues, and rate-making frameworks that address the interests of customers, shareholders and the financial markets. The Commission's final order in UE 165 has been of assistance in these meetings.

Our discussions are ongoing. The current consensus of this working group is that a long-term, general power cost adjustment mechanism is a more fruitful alternative to explore than a more limited, hydro-related mechanism. To honor this continuing process, we will withdraw PGE's deferred accounting applications for 2005 and 2006 associated with the SD-PCAM (UM 1187 and UM 1239) and will not file a revised SD-PCAM tariff at this time. The other parties in UE 165 support both decisions. We will file separately in dockets UM 1187 and UM 1239 formal withdrawals of the deferred accounting applications. Because Order No. 05-1261 permanently suspended PGE's SD-PCAM tariff, no further action is required in docket UE 165.

The parties in UE 165 recognized that the stipulated SD-PCAM was temporary

and limited in nature. PGE and Commission Staff offered the mechanism as a provisional approach until PGE could present a long-term, general solution. Thus, the Stipulation between Staff and PGE provided that PGE would propose an ongoing power cost adjustment in its next rate case, the SD-PCAM was "a temporary mechanism only," and neither party would use the terms of the SD-PCAM as precedent for the ongoing mechanism. Stipulation, ¶ 11.

We presently plan to include the results of our exploration with the working group in the general rate case that PGE intends to file this year. That forum can best accommodate the range of issues implicated by setting cost of service rates for net variable power costs (NVPC), which span from the modeling choices used to develop a base forecast of NVPC to the cost of capital implications of the risk allocations the Commission makes in its treatment of variances between forecast and actual NVPC. Docket UE 165 could not, and did not, explore all of these issues in part because of its limited nature and in part because of the settlement and resulting focus in the proceeding on the terms of that settlement. These limitations affected the nature of the record presented to the Commission in providing guidance on changes that would make the SD-PCAM acceptable.

As we bring forward a framework for handling NVPC in cost of service rates in our upcoming rate case, we are optimistic that the rate case record will contain a full exploration of the Commission's UE 165 guidelines and other issues that have arisen since the record closed in UE 165. For example, we expect that parties will address the differences between the earnings test the Commission suggested for UE 165 and the test used for other mechanisms, such as purchased gas adjustments, and for various deferrals in the past. In the context of a general rate case, the record can also include the cost of capital effects of an earnings test that may systematically (because of the asymmetric nature of NVPC variances) affect a utility's opportunity to earn its authorized return on common equity.

We also expect that parties will explore in greater depth the notion of "revenue neutrality," which surfaced in UE 165 and appears in the Commission's guidelines but we believe is an incomplete concept at this point. While we understand the Commission's goal to avoid biasing the overall expected level of power cost recovery through a variance mechanism, the underlying assumption is that the forecast (from which the variance is calculated) also is unbiased and will in real-life present an equal opportunity of equal-sized over- and under-runs. Staff has proposed expected value power cost modeling—a stochastic approach to power cost modeling – as a way to achieve such even probabilities. Unfortunately, as Staff has recognized, PGE does not presently have the ability to do expected value power cost modeling nor is it clear it is possible. Our growing understanding of the linkages necessary to develop a sound

approach to handle NVPC in cost of service rates is why we have been exploring with the parties approaches that span – and are consistent – all the way from the creation of the forecast to the ultimate handling of any variances.

For a variety of reasons, including those mentioned above, and the parties' strong desire that any mechanism developed apply only prospectively, we have decided it is best to close the two deferral dockets and UE 165. Much has been gained – including the Commission's guidance – that will be useful in the next phase. We look forward to continuing our discussions with the other parties and proposing a power cost adjustment mechanism in our next general rate case that we hope other parties will join us in supporting.

Sincerely,

/s/ PAMELA G. LESH

/s/ Pamela G. Lesh
Vice President,
Regulatory Affairs & Strategic Planning

C: UE 165 Parties