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 OPENING COMMENTS (PHASE III)**

Portland General Electric Company ("PGE") appreciates the opportunity to submit the following Opening Comments on the issues identified in Phase II of this docket. UM 1147, Order No. 06-507 at 6. For convenience, we have organized our comments consistent with the issues list Staff circulated among the parties.

I. WHAT RATE OF RETURN SHOULD APPLY TO DEFERRED AMOUNTS AFTER AMORTIZATION HAS BEEN ORDERED?

In Phase II, the Commission directed the parties to address in this phase "what the rate of return on deferred accounts should be during amortization, or how the rate of return should be established." *Id.* In posing this question, the Commission concluded that deferred accounts represent a utility investment and that "funding of deferred accounts, at least until some amount is amortized, should not be culled out from other utility investments." *Id.* For the period after the Commission has ordered amortization of the deferred amount, the Commission recognized that utilities need to be made whole for their investment in deferred accounts, but concluded that the authorized rate of return after amortization begins is not necessary to do so. *Id.* Accordingly, the Commission should establish a new rate of interest based on the following criteria: (1) it should reflect the utility's costs, (2) it should recognize the typical timing of deferrals, and (3) it should be readily verifiable and transparent.

An interest rate based on the utility's long-term debt is the most appropriate rate given that investments in deferred accounts are long-term in nature. For deferred costs, the utility must incur the costs immediately and await recovery while the Commission engages in an often protracted two-stage process. First, the Commission must consider the deferred accounting application. The deferred accounting statute now requires a hearing (if one is requested). The Commission dockets for obtaining authorization for deferred accounting often occur after the deferral period and alone can take six months to a year to resolve. Second, another contested case process may be required before the Commission orders recovery. It is, therefore, not uncommon in larger deferrals for two or three years to elapse between when the utility incurred the cost and when the Commission issues its amortization order.

Even after the Commission issues its amortization order, recovery often takes several years. The list of deferred accounts for PGE and PacifiCorp reveals that most substantial deferred amounts are recovered over a period of multiple years. *See* Exhibit A.

The use of a long-term debt rate matches the time period over which utilities finance such amounts and must await recovery of such investments. It therefore reflects the utility's costs, keeping the utility whole on its investments. Other published rates, such as Treasuries, fail this basic standard.

A long-term rate is also verifiable and transparent. The Commission determines a utility's forecasted long-term debt cost in each general rate case and the utility's actual long-term debt cost for the prior year is disclosed in the utility's annual Results of Operation Report ("ROO"). Either of these measures supplies a good benchmark in order to keep utilities whole for amounts they finance in deferred accounts.

II. HOW SHOULD POST-AMORTIZATION RATES OF RETURN BE ESTABLISHED?

As noted above, PGE proposes the long-term cost of debt as the appropriate interest to apply to post-amortization deferred amounts. If adopted, this rate can be determined through two equally suitable methods:

- Commission authorized long-term cost of debt as determined in each general rate case. This rate is based on average rate base as forecasted for a future test year. Interest rates for deferral balancing accounts will be updated on the date the new retail rates become effective and will remain in effect until the next general rate case as approved by Commission Order.
- The long-term cost of debt as determined in the utilities' annual ROO. This rate is based on average debt from the prior year's actual financial statements. Interest rates for deferral balancing accounts can be updated as of the beginning of the year in which the ROO is filed or they can be updated on the day the ROO is due to be filed (May 1 of each year).

III. SHOULD AN EXCEPTION APPLY TO IDAHO POWER?

PGE takes no position on whether Idaho Power should be provided an exemption to the Commission's policy in this docket.

We understand that the recovery period for certain Idaho Power deferrals is substantial, but long recovery periods are not unique to Idaho Power. PGE's power cost deferrals from the Western Energy Crisis were recovered over a period of almost four years. The Commission recently authorized the recovery of deferred amounts for Beaver 8 over a five-year period. A list of PacifiCorp's current deferred accounts reveals that most are recovered over a five-year period. *See* Exhibit A. Such long recovery periods, which span well over one year, are inconsistent with the application of a short-term interest rate for all utilities.

IV. HOW SHOULD THE RATE OF RETURN BE SET FOR DEFERRED ACCOUNTS THAT ARE BOTH CURRENTLY AMORTIZING AMOUNTS AND ACCRUING AMOUNTS PROSPECTIVELY?

The typical authorized deferral will first entail the recording of the deferred costs or revenues, followed by the amortization phase, during which the deferral is refunded to or collected from customers. For these deferrals, the balancing account will reflect sequential phases so that a change in interest rates from the deferral phase to the amortization phase is both administratively and mathematically simple. In this case (a) the deferral balance grows during the deferral phase, with interest applied at the utility's authorized cost of capital, and then (b) the deferral balance declines toward zero during the amortization phase, with interest applied at the to-be-determined amortization-phase rate.

However, certain ongoing deferred accounts continue to accrue new deferred amounts into and during the amortization phase. There are two kinds of such ongoing deferrals. For the first type, amounts that have been deferred in the past are amortized while the account continues to defer current amounts, which are then considered for amortization in a future period. Examples of this type of ongoing deferrals are power cost deferrals or PGE's property sales deferred account. PGE proposes two alternative approaches for such accounts:

- Separate components to the balancing account with the authorized cost of capital applied to the deferral-only balance and the amortization rate applied to the amortization-only balance. When amortization begins, the deferral balance to be amortized would be transferred to the amortization component.
- A weighted average interest rate based on the absolute value of the current month's deferral and amortization amounts. This means that each month during the amortization period could have a different interest rate if the deferral and/or amortization amounts vary.

The second type of ongoing deferrals use a balancing account where the amortization amount is set to achieve a zero balance to recover or refund both (1) amounts that have been deferred in the past, and (2) amounts that are expected to be deferred during the amortization period. PGE's SB 1149 deferral is an example of a balancing account deferral. Balancing account deferrals are different from the first category in their treatment of amounts deferred during the amortization period. In the first type of deferral these amounts are deferred and considered for recovery or refunding in a later amortization period. In the second type of deferral, amounts deferred during the amortization period are recovered or refunded in the same period such that the balance is zero at the end of the period.

Balancing account deferrals are therefore fundamentally different in nature from other deferrals. PGE proposes, for these balancing account type deferrals, that the utility's authorized cost of capital continue to be used. If the Commission determines that the authorized cost of capital is not appropriate, then either of the two alternatives identified above for ongoing deferrals should be used.

V. WHAT SHOULD THE INTEREST RATE BE FOR AMOUNTS IN THE BPA RESIDENTIAL EXCHANGE BALANCING ACCOUNT?

The BPA residential exchange balance should not be subject to the Commission's new policy. The BPA account is not the same as PGE's deferred accounts. As a matter of law, PGE is required to pass through all of BPA's residential exchange benefits to customers. Because PGE is required to transfer the benefits to customers, no deferred accounting application or Commission order is required to establish the balancing account. The account balance may be positive or negative depending on load variation and other factors. PGE simply serves as the conduit for conveying the benefits of the BPA system to its customers. The BPA residential exchange balance should continue to accrue interest at PGE's authorized cost of capital. If the Commission decides to make the balance subject to its new policy, a long-term debt based interest rate should apply.

VI. SHOULD THERE BE A MATERIALITY THRESHOLD UNDER WHICH THE POST-AMORTIZATION INTEREST RATE IS NOT RESET?

A materiality threshold should apply where the administrative cost of updating the balancing account exceeds the difference in interest that would result from the application of new post-amortization rates from this proceeding. An average difference in rates between the authorized cost of capital and long-term debt rates, which PGE proposes as the appropriate post-amortization rate, is approximately 150 basis points. Under this assumption, a $1 million average deferral balance would produce an interest differential of approximately $15,000 over one year. Based on this level of interest differential, PGE proposes that deferral balances under one-eighth of one percent (.0125%) of the utility's gross retail operating revenues be subject to a materiality threshold and not require a change to the post-amortization interest rates. Based on PGE's 2006 ROO, the proposed materiality threshold for deferral balances would be approximately $1.7 million, with an average balance of approximately $850,000 for a one-year amortization. As noted above, for such immaterial balances, the application of a new interest rate would yield a change in interest of less than $15,000.

VII. HOW SHOULD THE COMMISSION'S NEW INTEREST RATE BE IMPLEMENTED: SHOULD THE COMMISSION'S NEW POST-AMORTIZATION INTEREST RATE APPLY TO EXISTING DEFERRALS OR SHOULD IT BE APPLIED ON A PROSPECTIVE BASIS?

This issue concerns implementation of the interest rate the Commission establishes in this docket. There are three types of deferrals at issue: (1) deferrals for which amortization has begun, (2) deferrals the Commission has authorized but for which amortization has not begun; and (3) deferred accounts that have not yet been authorized by the Commission. The third category is uncontroversial: the new policy should apply to deferred accounts established in the future. The implementation issue arises for the other two categories.

A balanced approach would be to apply the new interest rate to all amounts subject to a future amortization order but not to amounts currently being amortized. As a practical matter, if the Commission issues its order by the end of this year, the new policy would take effect in 2008, which would result in virtually no delay in the effective date of the Commission's policy. Applying the new policy to future amortization orders is in keeping with the general rule that agency orders take effect on a prospective basis only. Such a middle ground avoids undue complications while implementing the core of the Commission's new policy expeditiously. It would also recognize that the recovery or refund periods (lengths) of current amortizations were established based on the prior policy. PGE does not support changing interest rates mid-amortization.

VIII. CONCLUSION

PGE respectfully requests that the Commission adopt policies in this phase consistent with PGE's recommendations.

DATED this 12th day of September, 2007.

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Attorneys for Portland General Electric Company

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CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **PORTLAND GENERAL ELECTRIC COMPANY'S OPENING COMMENTS (PHASE III)** by e-mail or by mailing a copy thereof to each party that has not waived paper service, in a sealed, first-class postage prepaid envelope, addressed to each party listed below and depositing in the US mail at Portland, Oregon.

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DATED this 12th day of September, 2007.

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Portland General Electric Company's Summary of Deferred Accounts

(Revised 8/31/07)

For authorized deferrals only.

	Deferral Basis	(a) Type of Revenue or Costs	(b) Begin Amortization	(c) Per OPUC Order Deferral Period	(d) Balance Actuals as of 06/30/07	(e1) Amortize Approval Yes/No	(e2) When Amortization was Approved & Over What Period	(e3) Annual Amortization Amount
Regulatory Assets:								
2007 Quarterly Direct Access Open Enrollment (UM 1301)	757.259	Direct Access Costs	N/A	2/01/2007-01/31/2008	-	No	N/A	N/A
Grid West Loans (UM 1256)	757.259	Loans to fund RTO	N/A	8/22/2006	1,387,047	No	N/A	N/A
Boardman (UM 1234)	757.259	Excess Power Costs	N/A	11/18/2006 -2/5/2006	30,173,886	No	N/A	N/A
SB1149 Deferral (UM 954)	SB1149	IT and incremental O&M Costs	1/1/2004	1999 - 2008	7,568,076	Yes	2003, 1/2004-12/2008 Advice Filing 03-22	6,900,000
Intervenor Funding (UM 1103)	757.259	Intervenor Funding Costs	N/A	7/1/2007-6/30/2008, 9/17/2003-6/30/2007, 9/17/2003-6/30/2006, 9/17/2003-6/30/2005	491,993	No	N/A	N/A
Beaver 8, Sch. 105	Stipulation	Purchase and installation of a turbine at Beaver 8 plant.	1/1/2005	N/A	6,043,731	Yes	1/1/2005 - 12/31/2009	2,633,605
2007 SB408 Collection	SB408	Income Taxes	N/A	2007	5,157,195	No	N/A	N/A
Total Regulatory Assets					$ 50,821,928.08			
Regulatory Liabilities:								
Annual Power Costs Variance (UM 1294) PCAM	757.259	Power Costs	N/A	01/17/2007-12/31/2007	(2,762,000)	No	N/A	N/A
BPA Rate Credit (UM 1277) Conservation Rate Credit	757.259	Pass through revenue for conservation	N/A	10/1/2006	(620,500)	No	N/A	N/A
Gain on Property Sales (UE 115)	757.259	Net gains from nonrecurring property transactions	1/1/2004	After 10-1-01	(2,735,859)	Yes	Advice Filing 06-28 On an annual basis	4,148,523
*Information Technology Capital - Schedule 105 (UM 1131)	757.259	IT Costs - true ups to UE115 CIS/IT capital costs	1/1/2007	1/1/2003 - 12/31/2006	(1,751,935)	Yes	11/2002-2007 On an annual basis	4,157,000
Stable Power Rate Tariff (UM 1269)*	757.259	Experimental tariff revenue/costs	N/A	8/26/2006 - 7/31/2006	(54,481)	No	N/A	N/A
Surplus Interest from Portland Energy Solutions (UI 195)	Order No. 02-280	Loan	N/A	1/2002 - 4/2004	(180,501)	No	N/A	N/A
Trojan ISFSI Tax Credit Cost (UM 1186(2))	757.259	Tax Credit	N/A	12/31/2006-11/30/2007	(11,628,388)	No	N/A	N/A
Gas Transportation (UM 1290)	757.259	Power Costs	N/A	2007	(821,666)	No	N/A	N/A
2005 Tax Kicker (UM 1252)	757.259	Taxes	N/A	2005	(4,240,513)	No	N/A	N/A
2006 SB408 Refund	SB408	Income Taxes	N/A	2006	(44,085,314)	No	N/A	N/A
Total Regulatory Liabilities					$ (68,881,157.57)			

PACIFICORP

Regulatory Asset / Liability Matrix

Estimates for 2nd Quarter, CY2007 Ending June 30, 2007

Type	SAP Account Description	Deferral Amortization Date	Amortization Period	Approximate Annual Amortization	Estimated Balance (6/30/2007)	Commission Approval for Amortization
Asset	SB 1149 Implementation Costs - Phase 1 Residential	Oct-01	5 yr	-	-	Order 01-787 (9/7/01)
Asset	Implementation Cost II - Residential	Mar-02	5 yr	(182,281)	182,281	Order 02-147 (3/7/02)
Asset	Implementation cost 3 - Residential	Jun-03	5 yr	(278,798)	285,945	Order 03-327 (5/27/03)
Asset	SB1149 Implementation Costs 4-Residential	May-04	5 yr	(148,291)	321,799	Advice 04-002 (4/8/04)
Asset	SB1149 Implementation Costs 5-Residential	Mar-05	5 yr	(55,314)	319,559	Advice 05-002 (3/23/05)
Asset	SB1149 Implementation Costs 6-Residential	May-06	5 yr	(123,925)	623,172	Advice 06-008 (5/10/05)
Asset	SB1149 Implementation Costs 7-Residential	Mar-07	5 yr	(18,066)	355,017	Advice 07-005 (3/15/07)
	Total Residential SB1149			**(806,675)**	**2,087,773**	
Asset	SB 1149 Implementation Costs - Small Non-Residential	Oct-01	5 yr	(4,758)	4,758	Order 01-787 (9/7/01)
Asset	Implementation Cost II - Non-Residential-Small	Mar-02	5 yr	(106,919)	106,919	Order 02-147 (3/7/02)
Asset	Implementation cost 3 - Non residential-small	Jun-03	5 yr	(149,202)	149,202	Order 03-327 (5/27/03)
Asset	SB1149 Implementation Costs 4- Small NonRes	May-04	5 yr	(43,836)	84,783	Advice 04-002 (4/8/04)
Asset	SB1149 Implementation Costs 5- Small NonRes	Mar-05	5 yr	(48,421)	135,933	Advice 05-002 (3/23/05)
Asset	SB1149 Implementation Costs 6- Small NonRes	May-06	5 yr	(49,733)	257,283	Advice 06-008 (5/10/05)
Asset	SB1149 Implementation Costs 7- Small NonRes	Mar-07	5 yr	(14,685)	156,304	Advice 07-005 (3/15/07)
	Total Small Non-Residential SB1149			**(417,553)**	**895,182**	
Asset	SB 1149 Implementation Costs - Large Non-Residential	Oct-01	5 yr	(290,955)	290,955	Order 01-787 (9/7/01)
Asset	Implementation Cost II - Non-Residential-Large	Mar-02	5 yr	(2,074,166)	2,074,166	Order 02-147 (3/7/02)
Asset	Implementation cost 3 - Non residential-large	Jun-03	5 yr	(1,001,217)	1,001,217	Order 03-327 (5/27/03)
Asset	SB1149 Implementation Costs 4- Large NonRes	May-04	5 yr	(235,871)	485,048	Advice 04-002 (4/8/04)
Asset	SB1149 Implementation Costs 5- Large NonRes	Mar-05	5 yr	(220,005)	680,788	Advice 05-002 (3/23/05)
Asset	SB1149 Implementation Costs 6- Large NonRes	May-06	5 yr	(222,775)	796,930	Advice 06-008 (5/10/05)
Asset	SB1149 Implementation Costs 7- Large NonRes	Mar-07	5 yr	(205,544)	573,444	Advice 07-005 (3/15/07)
	Total Large Non-Residential SB1149			**(4,250,533)**	**5,902,548**	
	Total SB1149			**(5,474,761)**	**8,885,503**	
Asset	Retail Access Project - INC.			-	170,772	
Asset	Sch 781 Direct Access Shopping Incentive	May-06	1 yr	(504,014)	718,529	Advice 06-010 (5/10/06)
Asset	Deferred Excess Net Power Costs - OR UE 116 Bridge			-	143,635	
Asset	Deferred Oregon Intervenor Funding Grants	Jun-07	1 yr	(945,616)	945,616	Advice 07-010 (5/22/07)
Asset	OR SB 408 Recovery	Jan-07	1 yr	(1,323,963)	1,323,963	Advice 06-016 (12/19/06)
	Total Assets			**(8,248,354)**	**12,188,018**	
Liability	Regulatory Liab - OR Gain on Sale of Assets			-	(170,565)	
	Total Liabilities			-	**(170,565)**	
	Net Assets/liabilities			**(8,248,354)**	**12,017,453**	

CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **PORTLAND GENERAL ELECTRIC COMPANY'S OPENING COMMENTS (PHASE III)** by e-mail or by mailing a copy thereof to each party that has not waived paper service, in a sealed, first-class postage prepaid envelope, addressed to each party listed below and depositing in the US mail at Portland, Oregon.

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DATED this 12th day of September, 2007.

D.l. White

DAVID F. WHITE

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