

**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.

**REPLY COMMENTS OF PORTLAND  
GENERAL ELECTRIC COMPANY**

Pursuant to Judge Kirkpatrick's Memorandum dated July 28, 2004, Portland General Electric Company ("PGE") submits these Reply Comments. In accord with Judge Kirkpatrick's instructions, these Reply Comments are confined to procedural and evidentiary issues. PGE reserves further detailed testimony or comments on the merits for a later phase of this proceeding.

**General Comments**

PGE recommends that the Commission consider its deferral policy in two phases. The first phase would address non-power cost issues and the second phase would consider power cost deferrals. *See* PGE Opening Comments at 12-14. With respect to non-power cost deferrals, there are many areas of agreement between the parties and a common recognition that the vast majority of these issues can be addressed in a relatively simple, straight-forward manner. We propose that this docket first focus on these issues and consider the more complex, contentious power cost related issues later in the proceeding. The ALJ or Commission should rule on this phasing proposal before parties submit detailed comments or testimony because the resolution of this issue will impact the scope of issues the parties address.

The following specific procedural and evidentiary recommendations track the issues identified in Judge Kirkpatrick's Memorandum dated July 28, 2004.

**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?**

This issue requires a factual record to permit the Commission to resolve disputed matters of fact. The opening comments make this evident. For example, Commission Staff and others advocate dividing deferrals into three categories (stochastic, scenario, and Commission-approved) with different materiality levels associated with each. *See Staff Opening Comments at*

3. This theory raises the following factual issues:

- What are stochastic and scenario risks? In opening comments, parties have suggested inconsistent definitions. *Compare Staff Opening Comments at 3 (emphasis added) (defining stochastic as risk that "can be predicted as part of the normal course of events") with ICNU Opening Comments at 5 (stochastic is something "capable of being modeled in rates").*
- What events, costs or revenues are stochastic or scenario in nature?
- How are the costs associated with "stochastic risk" incorporated into rates? (CUB Opening Comments at 2)
- How are the costs associated with "scenario risk" incorporated into rates? (CUB Opening Comments at 3)
- What level of "variability" for scenario risk is incorporated into rates? (*Id.*)
- What is the appropriate financial materiality threshold?
- How does this approach benefit customers?
- What levels of risk are utilities currently compensated for?

- What types of future deferrals (whether for stochastic or scenario risk) are eligible or qualify as "Commission-approved" and therefore are not subject to a materiality thresholds under the theory suggested?

If power cost deferrals are not bifurcated but remain in this docket, then a factual record is needed to determine what policy for power cost deferrals will result in the least-cost option for customers. *See* PGE Opening Comments at 16.

Other factual issues may require resolution as the record develops. To ensure that parties have an opportunity to respond to other parties' detailed testimony, PGE recommends two rounds of testimony followed by a hearing on this issue.

**Issue 2: Under what circumstances is a particular deferral not within the normal risk range that utilities absorb between rate cases?**

This is an inherently factual issue that requires a factual record. The Commission cannot determine what is an appropriate "normal range that utilities absorb between rate cases" without determining what levels of risk are utilities compensated for and what deferral policy will support the financial health and stability of utilities while offering the least cost alternative to customers on a long-term basis. Other parties have indicated that determining the "normal risk range" requires a factual record. Staff Opening Comments at 4; PacifiCorp Opening Comments at 4. To ensure that parties have an opportunity to respond to other parties' detailed testimony, PGE recommends two rounds of testimony followed by a hearing on this issue.

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

Comments on this issue should be sufficient without the need for testimony and a hearing. Because many parties have not filed detailed comments, two rounds of additional comments are necessary to ensure that all parties have the opportunity to respond to other parties' detailed submissions.

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

Testimony and a hearing with witnesses subject to cross-examination are necessary to address the factual issues raised in opening comments. Commission Staff and others have suggested that specific short-term debt should be allocated to deferred accounts and the interest rates for short-term debt applied to deferred account balances. Staff Opening Comments at 4-5. Commission Staff claims this allocation of low-interest debt to deferred accounts is justified because of "the lower risk associated with recovery of deferred accounts." Staff Opening Comments at 5.

Staff recognizes that "some factual findings may be necessary" to "determine the level of risk associated with recovery of money in a deferred account." Staff Opening Comments at 5. While we disagree with Staff's substantive recommendation, we agree that the Commission would need to address and resolve disputed issues of fact before adopting Staff's position. Staff's proposed change in the Commission's long-standing policy of using the utility's cost of capital as the interest rate for deferred accounts would require factual findings on the following issues:

- What new facts or change in circumstances warrant a shift in the Commission's policy of using the utility's cost of capital as the interest rate for deferred accounts?
- How do utilities finance deferred accounts?
- What is the risk associated with recovery of deferred accounts?
- What is the risk associated with the recovery of other capital investments?
- What evidence is there that Staff's proposed rate (a blended 1-, 3-, and 5-year Treasury rate) reflects a utility's risk with respect to deferred accounts? Staff Opening Comments at 5.

- If short-term debt is allocated to deferred accounts because they reflect lower risk of recovery as Commission Staff claim, on what basis will equity and long-term debt be allocated to higher risk investment?
- Will such an allocation of debt and equity to specific utility investments benefits customers?

Other factual issues may require resolution as the record develops. To ensure that parties have an opportunity to respond to other parties' detailed testimony, PGE recommends two rounds of testimony followed by a hearing on this issue.

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

Two additional rounds of comments should be sufficient to address this issue.

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

Further comments on this issue should be sufficient without the need for testimony and a hearing. The Commission need not resolve any factual matters to address this issue.

**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?**

Further comments on this issue should be sufficient without the need for testimony and a hearing. The Commission need not resolve any factual matters to address this issue.

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

Further comments on this issue should be sufficient without the need for testimony and a hearing. The Commission need not resolve any factual matters to address this issue.

**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?**

Further comments on this issue should be sufficient. The Commission need not resolve any factual matters to address this issue. To permit parties the opportunity to respond to other parties' detailed comments, parties should submit two additional rounds of comments.

**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?**

Opening comments on this issue generally track the responses to Issue Nos. 1-2. See Staff Opening Comments at 8. For the reasons identified above under Issue Nos. 1-2, two rounds of testimony followed by a hearing are necessary to provide a factual record upon which the Commission may resolve these factual issues.

DATED this 21<sup>st</sup> day of October, 2004.

 <sup>Asst DCT</sup>

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## CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **REPLY 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: Oct. 21, 2004.



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