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May 16, 2007

Via Electronic and US 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'S
Request to open an investigation regarding performance-based ratemaking
mechanisms to address potential build-vs-buy bias
Docket No. UM 1276

Dear Filing Center:

Enclosed please find the Return on Equity Adjustment Straw Proposal of the
Industrial Customers of Northwest Utilities in the above-referenced docket.

Thank you for your assistance.

Sincerely,

/s/ Christian Griffen
Christian W. Griffen

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Return on Equity Adjustment Straw Proposal of the Industrial Customers of Northwest Utilities upon the parties on the service list, shown below, by causing the same to be deposited in the U.S. Mail, postage-prepaid, or via electronic mail to those parties who waived paper service.

Dated at Portland, Oregon, this 16th day of May, 2007.

/s/ Christian Griffen
Christian W. Griffen

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Return on Equity Adjustment Straw Proposal

Proposals have been made in Docket No. UM 1276 to adopt various ratemaking experiments to eliminate the utilities' bias to build rather than purchase new generation resources. Potential straw proposals include purchase power trackers, an income opportunity management fee for purchase power agreements, rate base treatment for purchase power contracts, and a debt imputation phantom equity adjustment. These proposals all provide the utilities with economic incentives to address the bias arising from the fact that utilities earn a return on rate base for power plants, but not purchase power agreements.

The Commission should consider adopting an adjustment to the utilities' return on equity ("ROE") to address the utilities' bias and to hold ratepayers harmless if the Commission provides the utilities economic incentives to enter into purchase power agreements. An ROE adjustment is appropriate for all of the income opportunity straw proposals that have been discussed in this proceeding.

The purpose of an ROE adjustment would be to maintain the current balance of risk and reward between shareholders and ratepayers.

Commission Staff has recognized that one way to address the utility bias to build generation resources rather than enter into purchase power agreements is to eliminate rate base.

An alternative to eliminating rate base would be to reduce the utilities' ROE to reflect the risk and costs that may be shifted to ratepayers because of a purchase power tracker, rate base treatment for purchase power contracts, or another incentive proposal. The specific ROE adjustment would need to reflect the details of the incentive-based and/or performance-based ratemaking proposal, again, in order to maintain the balance of risk and reward between shareholders and ratepayers.

The ROE adjustment should capture the value of the risk that is shifted from the utility to ratepayers. The ROE adjustment should also balance the additional income the utility receives from contracts, and hold both ratepayers and shareholders harmless. For example, this could occur by reducing the utilities' overall ROE by an amount that would be equivalent to the additional income the utility expects to obtain during the test period in which purchase power agreements would be included in rate base. This proposal will result in fair overall compensation through a reduction to the ROE used to develop the rate of return applied to rate base in a utility's rate proceeding. The combined income opportunity produced from the adjusted ROE and the purchased power agreement incentive income would provide a fair, but not excessive, earning opportunity for providing utility service.