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January 9, 2008

***Via Electronic Filing and U.S. Mail***

Oregon Public Utility Commission  
Attention: Filing Center  
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**Re: UE 180, 181 AND 184**

Attention Filing Center:

Enclosed for filing in the captioned dockets are an original and one copy of:

- **REPLY OF PORTLAND GENERAL ELECTRIC TO MOTION FOR RECONSIDERATION.**

This document is being filed by electronic mail with the Filing Center. Hard copies are to be sent via US Mail.

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,

A handwritten signature in dark ink, appearing to read "D.C. Tingey", written in a cursive style.

DOUGLAS C. TINGEY

DCT:saa  
Enclosure

cc: Service List-UE 180/181/184

## CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **REPLY OF PORTLAND GENERAL ELECTRIC TO MOTION FOR RECONSIDERATION** to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class US Mail, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service.

Dated at Portland, Oregon, this 9th day of January 2008.

  
\_\_\_\_\_  
DOUGLAS C. TINGEY

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UE 180, UE 181, UE 184

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2006. One of the issues in this docket was the inclusion in rates the costs of the Port Westward generating facility. The Port Westward plant came on line on June 11, 2007. Following a public meeting, on June 14, 2007, the Commission allowed PGE to include in customer rates the costs associated with the newly completed Port Westward generating facility, subject to refund. *Order 07-273*. Pursuant to that Order, and Order 07-015, Staff and intervenors had until June 26, 2007, to submit motions seeking the reopening of this docket to reexamine “PGE’s costs in light of changes since Order 07-015 was issued.” *Order 07-273 at 5*. On June 26, 2007, two motions were filed. Staff filed a Motion for Order Allowing Rates to go into Effect Permanently. CUB filed a Motion to Reopen. On July 10, 2007, CUB filed a Response to Staff Motion. On July 11, 2007, PGE filed a reply to both the Staff and CUB motions. On October 22, 2007, the Commission entered Order 07-454 that allowed the rates (Advice No. 07-15) to go into effect on a permanent basis. CUB seeks reconsideration of that Order.

### **PREVIOUS MOTIONS**

In its June motion to reopen, CUB pointed to three specific areas where it claimed that costs and revenues significantly deviated from test-year forecasts: the state tax rate, Port Westward capital costs, and increased revenues due primarily to variable power costs. Pointing to these three specific areas, CUB argued that rates should be reexamined. CUB did not address the appropriateness of the rates in general.

Staff identified the same income tax and rate base issues as CUB but also recognized that other expenses would be higher than forecast in the test year. Staff developed a proxy test year using available actual results and 2007 budget information. Staff’s analysis showed that projected revenues were lower than what was forecast in setting rates, and fixed O&M and Depreciation and Amortization expenses were expected to be higher than forecast in the test

year. Staff's analysis further showed that these adjustments, if made, would result in a higher revenue requirement than the Commission had previously established. Staff concluded that there had been no material deviation from the test period projections that would warrant reexamining test year costs.

In response to the motions, PGE also provided an analysis comparing the test year forecast with projected earnings, using the 4 months of actual data available. That analysis also showed no significant difference with the forecast used to set rates. PGE also pointed out some costs that were projected to be higher than test year forecast, such as property tax and O&M. PGE also pointed out weaknesses in CUB's analysis.

### **THE COMMISSION'S DECISION**

Order 07-454 explained that the 15 day period was to "provide our Staff and intervenors an opportunity to examine whether PGE's costs and revenues had sufficiently deviated from the forecasts earlier used to set rates." *Order 07-454 at 5.* The Order continues:

we must apply traditional ratemaking principles. We may not, as CUB appears to request, use profits of PGE during the first four months of 2007 to reduce future rates. (citation omitted). Moreover, we may not focus on one cost element while ignoring others. Because increases elsewhere may offset decreases, a change to one cost element does not, by itself, automatically require an adjustment to rates.

*Id.* The Order continues:

we must examine PGE's current financial performance as if we were setting new rates. In other words, we must view costs and revenues holistically and in a manner consistent with establishing a test year for ratemaking purposes . . .

*Id.*

After this explanation, the Commission stated "[f]or these reasons, we find the methodology used by Staff most appropriate for this exercise." *Id.*

When specifically addressing CUB's income tax claim, the Commission recognized that the automatic adjustment mechanism adopted pursuant to SB 408 will adjust rates, with interest, and then stated:

Moreover, as we have stated, a determination of whether rates are "fair, just and reasonable" must be based on a review of all revenues and costs rather than a single cost element. For these reasons, an adjustment to base rates is not required by law.

*Id.* at 6.

## **DISCUSSION**

CUB claims two possible grounds for reconsideration under OAR 860-014-0095(3): an error of law or fact in the order which is essential to the decision, or good cause for further examination of a matter essential to the decision. CUB has shown neither.

Notwithstanding the clear, and correct, statement of ratemaking principles and law contained in the Order, requiring that all revenues and costs must be considered and not just a single cost element, CUB again urges the Commission to adjust rates based on a single cost element. CUB has not questioned the Commission's reasoning or the principles it applied. Yet, CUB seems to ignore these principles and legal requirements. In fact, in its motion CUB quoted part of the paragraph just set forth above, but left out the two sentences set forth above. The Commission properly concluded that "a determination of whether rates are 'fair, just and reasonable' must be based on a review of all revenues and costs rather than a single cost element." *Order 07-454 at 6.*

CUB has not made a showing that the Commission committed error. Nor has CUB even attempted to show that, considering all costs and revenues, that rates are not fair, just and reasonable. CUB continues to advocate an adjustment based on a single cost element, tax, and only a part of that cost element. Staff's analysis, that the Commission relied on in issuing its

Order, included that impact of the change in the income tax rate, and showed that when that change and other changes in costs and revenues are taken into account, PGE's revenue requirement would be higher than used in setting rates, meaning that rates would need to be raised. In fact, Staff noted that lower projected revenues and increased O&M expense "would have a much greater impact to increasing the revenue requirement than the offset of adjusting the State Tax Rate." *Motion for Order Allowing Rates to Go Into Effect Permanently*, p. 6.

CUB's discussion regarding the effect of SB 408 is irrelevant. They are focusing on a subset of a subset of costs. As the Commission has rightly decided and as discussed above, the appropriate test is total costs and revenues.

### CONCLUSION

CUB's motion for reconsideration should be denied. CUB has shown no error of law or fact. The Commission properly determined that the rates put into effect shortly after Port Westward entered service for customers were fair, just and reasonable.

DATED this 9th day of January, 2008.

Respectfully submitted,

/s / Douglas C. Tingey

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