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June 2, 2004

**VIA FACSIMILE, ELECTRONIC
AND FIRST CLASS MAIL**

Ms. Carol Hulse
Oregon Public Utility Commission
550 Capitol St. NE, Suite 215
P.O. Box 2148
Salem, OR 97308-2148

Re: UM 1071

Dear Ms. Nichols:

Enclosed for filing in the above-referenced docket are the original and five copies of Portland General Electric Company's Reply in Support of its Application for Reconsideration and Rehearing of Order No. 04-108.

Thank you for your assistance.

Yours truly,



David F. White

DFW/pcs
Enclosures
cc: Service List

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1071**

In the Matter of the Application of Portland
General Electric Company for an Order
Approving the Deferral of Hydro
Replacement Power Costs

PORTLAND GENERAL ELECTRIC
COMPANY'S REPLY IN SUPPORT OF ITS
APPLICATION FOR RECONSIDERATION
AND REHEARING OF ORDER NO. 04-108

Portland General Electric Company ("PGE") respectfully requests that the Commission consider this Reply in support of PGE's Application for Reconsideration and Rehearing of Order No. 04-108 (the "Order"). As expected, PGE's Reconsideration Application and the other parties' reply briefs disagree over whether rehearing should be granted. We did not expect, however, the confusion and disagreement reflected in the reply briefs over what the Order meant and what framework the Commission adopted. This fundamental confusion alone warrants reconsideration of the Order so that the Commission can remove the uncertainty. The Commission issued the final order to resolve PGE's deferral application but also to provide guidance as to how the Commission exercises its discretion when reviewing a deferred accounting application. *See* Order at 8. Accomplishing the later goal requires rehearing and reconsideration.

PGE's Reconsideration Application interpreted the Order to introduce a rigid two-factor test in which the Commission considered only the type of risk and the magnitude of the financial harm. *Id.* "Stochastic" risks must meet a stiff financial harm standard. *Id.* at 9. Risks that fall into this category require a "substantial financial harm." Non-stochastic risks (called scenario risks) face a lower financial threshold. They need only cause a "material financial" harm to

warrant a deferral. *Id.* PGE objected to this rigid framework because it was inappropriate to announce a new policy in the context of an individual application, because PGE had no meaningful opportunity to present evidence as to whether it satisfied this new test, and because decisive issues of fact (whether hydro variability was a stochastic or scenario risk) were in dispute and could not properly be resolved without an evidentiary hearing.

After reviewing the reply briefs, we are not sure our interpretation of the Order is right. CUB thinks the Commission did not introduce a new framework at all. CUB labels the Commission order "Basic Ratemaking Theory 101. Utility rates are set based on a test year (historic or future) that is adjusted (normalized) to reflect normal or average conditions. A utility bears the risk that conditions will not be average. The exception to the rule that the utility bears this risk is when the deviation from normal is 'extraordinary.'" CUB Reply at 4.

ICNU agrees. According to ICNU, the Order held that "costs associated with extraordinary events (scenario risk) may be appropriate for deferral, but costs associated with normal variations (stochastic risks) generally are not." ICNU Reply at 7.¹

The argument for rehearing and reconsideration can be stated quite simply. The Order either introduced a new test for deferrals or it relied on the more traditional Ratemaking 101 approach suggested by the customer groups. Either way, reconsideration should be granted. If the Commission intended nothing more than the traditional approach to deferrals, then it should grant reconsideration to make this clear. If on the other hand it intended to introduce a new theory, then rehearing should be granted to create a more complete and adequate record and to

¹ Only Staff's reply suggests that the Commission did something new. It acknowledges that "terms stochastic and scenario risk is certainly new" (Staff Reply at 6) and that "distinguishing between risks that can be predicted as part of the normal course of events and those that are not susceptible to prediction and quantification involves some change in the Commission's analysis" although Staff questions the magnitude of the shift in policy. Staff Reply at 7.

provide PGE an opportunity to present testimony relevant to the new framework. Under either interpretation of the Order, rehearing and reconsideration should be granted.

DATED this 2nd day of June, 2004.

David White ^{Asst JJD}

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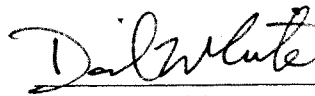
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CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **PORTLAND GENERAL ELECTRIC COMPANY'S REPLY IN SUPPORT OF ITS APPLICATION FOR RECONSIDERATION AND REHEARING** 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: June 2, 2004.



David F. White

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