

December 9, 2004

BY HAND DELIVERY AND E-MAIL

ANNETTE TAYLOR
LEGAL SECRETARY TO ADMINISTRATIVE
LAW JUDGE KATHRYN LOGAN
PUBLIC UTILITY COMMISSION OF OREGON
550 CAPITOL STREET, NE
SALEM OR 97310

Re: UM 1121 – Oregon Electric Utility Company, et al., to Acquire Portland
General Electric Company: Reply Brief of City of Portland

Dear Ms. Taylor:

I have been contacted by Jason Jones on behalf of staff regarding what is an evident error in the City of Portland's Reply Brief. The brief mistakenly attributes a statement as a quote from Staff's testimony. To correct this misquotation, the City is filing a replacement page 17 for the City's Reply Brief which removes the quotations from the sentence.

Enclosed is an original and five copies of the replacement page.

I sincerely apologize for any misunderstandings this error may have caused.

Very truly yours,

/s/ Benjamin Walters

Benjamin Walters
Senior Deputy City Attorney

BEW:lw

Enclosures

cc: UM 1121 Service List

transaction, including regulatory complexities and risks inherent in the proposed ownership structure, the dynamics and incentives of short-term ownership, and the potential risks of the high level of debt.”¹⁰¹

Overall, the Applicants’ conditions simply fail to provide adequate protection and transparency.¹⁰²

A. The proposed rate credits do not provide sufficient benefits to PGE’s customers to outweigh the risks of additional debt and an owner with no prior operating experience.

The Applicants have proposed a rate credit “based upon what OEUC believed might be an achievable level of savings in the next general rate case.”¹⁰³ However, the Applicants did not provide documentation “to support any claim that rate credit is in an amount ‘achievable’ in savings in the next rate case.”¹⁰⁴ ¹⁰⁵

Staff proposed a rate credit of \$75 million spread over fifteen years. Staff offers various rationales to support this rate credit. The rate credit “is intended to offset . . . worrisome concerns that remain despite a related condition.”¹⁰⁶ Staff then argues that the rate credits should correspond to applicants’ projected returns on their short-term investment in PGE.¹⁰⁷ On the other hand, Staff suggests that the rate credit will recapture the tax benefits created by the structure of the proposed acquisition:

The acquisition proposed in this proceeding will lead to substantially increased debt leverage at the consolidated level . . . On an expected basis, this increased leverage will yield an income tax benefit of approximately \$15 million annually. These savings, along with system efficiencies, will be available to OEUC to fund

¹⁰¹ *AOI Opening*, p. 29.

¹⁰² *ICNU Opening*, p. 2.

¹⁰³¹⁰³ OEUC 500/Davis 23.

¹⁰⁴ *ICNU Opening*, p. 34; ICNU 501.

¹⁰⁵ *Staff Opening*, p. 17.

¹⁰⁶ *Id.*, p. 19.

¹⁰⁷ Staff 800/Conway 12.